DOCUMENT RESUME

ED 107 178 HE 006 547

TITLE	Model Student Assistance Programs for Kentucky. Final Report.
INSTITUTION	Educational Management Services, Inc., Minneapolis, Minn.
PUB DATE	31 Dec 73
NOTE	135p.
EDRS PRICE	MF-$0.76 HC-$6.97 PLUS POSTAGE
DESCRIPTORS	Administrative Policy; *Educational Finance; Program Development; *Scholarship Funds; *State Aid; *Student Loan Programs; Tuition Grants; Work Study Programs
IDENTIFIERS	*Kentucky

ABSTRACT

During the year 1973, the Kentucky Higher Education Assistance Authority (KHEAA) conducted a five-phase research program on postsecondary student financial needs and resources in Kentucky. This document deals with phase V of that study. The major objective on phase V is the development of model student assistance programs for Kentucky. KHEAA has assumed that the development of model student assistance programs will include administrative procedures, program guidelines, and funding levels and methods as essential elements in the implementation of student assistance systems. KHEAA also believes that the types of programs proposed are significant and feels that, as a minimum, loan, grant, scholarship and work-study programs should be considered, and that any model student assistance programs developed for the Commonwealth must be tailored to the needs of the potential beneficiaries. This document includes a review and summary of phases I-IV, a review of student assistance plans in other states, and a set of proposed goals and objectives of the Kentucky Higher Education Assistance Authority. Final sections of this report provide identification and assessment of alternative model student assistance programs, development and documentation of alternative strategies, and a summary of study recommendations. (Author/KE)

ED107178

MODEL STUDENT ASSISTANCE PROGRAMS

FOR KENTUCKY

FINAL REPORT

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION
THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY

DECEMBER 31, 1973

HE 2106 547

Kentucky Higher Education Assistance Authority

KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY
Capital Plaza Office Tower
Frankfort
40601

Membership	Term Expires
Mrs. James D. Adams, Prestonsburg	1974
Mr. William J. Auerweck, Sr., Louisville	1975
Mr. John W. Barr III, Louisville	1974
Mr. George P. Crounse, Paducah - Chairman	1974
Mr. Ralph Fontaine, Brandenburg	1975
Mr. James F. Madole, Owensboro	1973
Mr. R. Wesley Naye, Louisville - Vice Chairman	1973
Mr. Charles Pryor, Jr., Frankfort	ex officio
Dr. A. D. Albright, Frankfort	ex officio

Staff

Mr. Paul P. Borden, Executive Secretary
Mrs. Vivian Johnson, Administrative Secretary
Miss Jane Multerer, Administrative Intern

ED107178

MODEL STUDENT ASSISTANCE PROGRAMS

FOR KENTUCKY

DECEMBER 31, 1973

FINAL REPORT

Conducted by
Educational Management Services, Inc.
4510 West 77th Street
Minneapolis, Minnesota 55435

Published by

Kentucky Higher Education Assistance Authority

Capital Plaza Office Tower

Frankfort, Kentucky 40601

Area Code 502 564-3553

(Cost of printing paid from state funds)

ACKNOWLEDGMENTS

The Study Staff is indebted to many individuals for their assistance and support throughout the conduct of Phase V of this Research Program. The complete list of individuals is too extensive for inclusion in this Abstract, but the Study Staff would like to acknowledge the following:

- The Kentucky Higher Education Assistance Authority & Staff:

  Paul P. Borden, Executive Secretary
  (Mrs.) Vivian Johnson, Administrative Secretary
  (Miss) Jane Multerer, Administrative Intern

- The Kentucky Council on Public Higher Education & Staff:

  A. D. Albright, Executive Director
  Harry M. Snyder, Associate Director for Fiscal Affairs & Counsel
  William A. Webb, Former Deputy Director
  Herman B. Moore, Research Analyst
  Thomas G. Braun, Coordinator of Information Systems

- The Office of Policy and Management:

  Ike Watson, Assistant Manager

- The Executive Department for Finance & Administration:

  Porter Daley, Division of Accounts

- The State Department of Education:

  Donald E. Elswick, Director of Educational Research

TABLE OF CONTENTS

ACKNOWLEDGEMENTS ---------- ii
LIST OF TABLES ---------- v

I. INTRODUCTION ---------- 1

1.1 Background on Phase V of the Research Program ---------- 1
1.2 Objectives and Tasks of Phase V ---------- 4
1.3 Orientation to this Report ---------- 5

II. REVIEW AND SUMMARY OF PHASES I-IV ---------- 6

2.1 Introduction ---------- 6
2.2 Phase I: A Post Secondary Student Financial Aid Attitudinal Survey ---------- 6

2.2.1 Survey Design ---------- 6
2.2.2 Results of the Survey ---------- 7

2.3 Phase II: Socioeconomic Influences on the Educational and Career Paths of Kentucky High School Seniors ------- 10

2.3.1 The Transition Decision ---------- 11
2.3.2 The Institutional Choice Decision ---------- 13

2.4 Phase III: A Survey of Student Aid Resources in Kentucky ---------- 15

2.4.1 Available Student Aid ---------- 15
2.4.2 Student Aid by Degree of Availability ---------- 17
2.4.3 Types of Student Aid by Degree of Availability--- 18
2.4.4 Student Aids by Types of Institutions ---------- 19

2.5 Phase IV: An Analysis of the Aggregate Financial Needs of Kentucky Post-Secondary Students ---------- 23

2.5.1 Financial Need 1971-72---------- 23
2.5.2 Projected Financial Need: 1973-74 ---------- 26

2.6 Summary ---------- 28

2.6.1 Financial Aid Resources, 1971-72 ---------- 29
2.6.2 Financial Need ---------- 30
2.6.3 Projected Financial Need, 1973-74---------- 30
2.6.4 Highlights of Phase I-IV Studies ---------- 32

III. REVIEW OF STUDENT ASSISTANCE PLANS IN OTHER STATES --------- 34

3.1 Background ---------- 34
3.2 Critical Trends ---------- 36
3.3 Summary ---------- 54

IV. PROPOSED GOALS OF THE KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY ---------- 55

4.1 Introduction ---------- 55
4.2 Proposed Goals ---------- 55

V. IDENTIFICATION AND ASSESSMENT OF ALTERNATIVE MODEL STUDENT ASSISTANCE PROGRAMS ---------- 57

5.1 A Definition of Financial Need ---------- 57
5.2 Background on Student Assistance Programs ---------- 57
5.3 Functional Mechanisms to Transmit Statewide Student Aid ---------- 60
5.4 Alternative Model Student Assistance Programs ---------- 62

5.4.1 Alternative One ---------- 65
5.4.2 Alternative Two ---------- 75
5.4.3 Alternative Three ---------- 78
5.4.4 Alternative Four ---------- 82
5.4.5 Alternative Five ---------- 87
5.4.6 Alternative Six ---------- 91
5.4.7 Alternative Seven ---------- 92

VI. DEVELOPMENT AND DOCUMENTATION OF ALTERNATIVE STRATEGIES----- 94

6.1 State Funding of Student Assistance Programs ---------- 94
6.2 Potential Students to be Served and Per Capita Costs ---------- 96

VII. SUMMARY AND RECOMMENDATIONS ---------- 98

APPENDICES ----------100

A. References.....101

B. Tasks and Activities of Phase V.....103

C. Request for Student Assistance Information from other States.....106

D. Proposed Legislation for Student Assistance Programs.....107

E. Operational and Cash Flow Analyses for KHEAA Direct Lending Program.....114

F. Student Financial Needs Analysis Systems.....121

G. Computational Model Simulations.....125

LIST OF TABLES

TABLE	PAGE
Table 2.4.1 Available Student Aid In The Commonwealth Of Kentucky, 1971-72	16
Table 2.4.2 Student Aid By Degree Of Availability	18
Table 2.4.3 Types Of Student Aid By Degree Of Availability	19
Table 2.4.4 Student Aid By Types Of Institutions By Degree Of Availability	20
Table 2.5.1 Undergraduate Student Data Relating To Groups Of Kentucky Post-Secondary Institutions For 1971-72	24
Table 2.5.2 Financial Aid Needed By Type Of Institution, 1971-72	25
Table 2.5.3 Needs By Income Levels, 1971-72	26
Table 2.5.4 Need Gaps By Types Of Institutions And Income Intervals 1973-1974	27
Table 2.6.1 Student Financial Aid By Types Of Institution, 1971-72	29
Table 2.6.2 Financial Aid Needed By Types Of Institution, 1971-72	31
Table 2.6.3 Total Projected Financial Need, 1973-74	31
Table 3.1.1 States With Comprehensive Student Assistance Programs In Operation	35
Table 3.2.1 Are Students Enrolled In Out-Of-State Institutions Eligible?	36
Table 3.2.2 Are Part Time Students Eligible?	37

TABLE	PAGE
Table 3.2.3 Is Eligibility In This Program Limited to Undergraduates?	38
Table 3.2.4 Is Some Measure Of Academic Ability Or Potential Required To Qualify For A Need Based Award?	38
Table 3.2.5 Are Honorary (No Need) Awards Conferred?	39
Table 3.2.6 If You Checked "Yes" May An Honorary Award Recipient Apply For A Monetary Award If The Family Financial Situation Worsens?	39
Table 3.2.7 Are Awards In This Program Limited To Tuition And Fees?	40
Table 3.2.8 If You Check "No", Please List Other Costs Covered	40
Table 3.2.9 Are For-Profit Schools Eligible To Participate In This Program	41
Table 3.2.10 Do You Have A Limitation (Either Statute Or Regulation) By Age Or Number Of Years Beyond Secondary Schools For First-Time Award Consideration?	42
Table 3.2.11 Are Students Who Did Not Apply For Freshman Year Considered Eligible To Apply In Upperclass Years?	42
Table 3.2.12 Are Students Who Were Rejected (Other Than Honorary Awardees) Eligible To Apply In Upperclass Years?	43
Table 3.2.13 What Need Analysis System Is Used For This Program?	43
Table 3.2.14 In 1972-73 What Was The Amount Of Self-Help Expected For Winners In This Program, If Any?	45
Table 3.2.15 Expected Parents' Contribution From Net Income For Students Entering College In The 1973-74 Academic Year	47
Table 5.3 Functional Mechanisms To Transmit Statewide Student Aid	61
Table [illegible].1 State Funding Of Student Assistance Programs	96

I. INTRODUCTION

The Kentucky Higher Education Assistance Authority, Commonwealth of Kentucky (KHEAA) has contracted with Educational Management Services, Inc. (EMS) of Minneapolis, Minnesota to conduct the concluding phase of a five-phase research project: "Phase V: Model Student Assistance Programs for Kentucky". The contract, which extends during the period November 15, 1973 to January 15, 1974, includes a work plan which has been undertaken in three sub-phases. These are:

Sub-Phase 5.1 - Review and Summarize

Sub-Phase 5.2 - Identify and Assess Alternative Model Student Assistance Programs

Sub-Phase 5.3 - Develop and Document Alternative Strategies

The major purpose of this Final Report is to provide the results of Phase V of the research project, including the tasks and activities which have been performed during the contract period. Educational Management Services is pleased to be associated with the Kentucky Higher Education Assistance Authority in the development of model student assistance programs for Kentucky. We especially have appreciated the help and cooperation shown by the KHEAA staff: Mr. Paul Borden, Executive Secretary; Mrs. Vivian Johnson, Administrative Secretary; and Miss Jane Multerer, Administrative Intern. The help of the Staff of the Council on Public Higher Education has also been appreciated.

1.1 Background on Phase V of the Research Program

During the year 1973, the Kentucky Higher Education Assistance Authority has been conducting a five-phase research program on post-secondary student financial needs and resources in Kentucky. At this point, Phases I-IV have been

concluded. The current phase is entitled: "Phase V: Model Student Assistance Programs for Kentucky". This name suggests the major objective of this final segment of the study (i.e., the development of model student assistance programs for Kentucky). KHEAA has assumed that the development of model student assistance programs will include administrative procedures, program guidelines, and funding levels and methods as essential elements in the implementation of student assistance systems. KHEAA also believes that the types of programs proposed are significant and feels that, as a minimum, loan, grant, scholarship and work-study programs should be considered.

Finally, KHEAA has stated that any model student assistance programs developed for the Commonwealth must be tailored to the needs of the potential beneficiaries. It is, therefore, expected that the results of Phases I through IV of KHEAA's research program will be embodied in the development of model student assistance programs for Kentucky.

Briefly, Phases I-IV of the foregoing research program have produced the following reports:

Phase I: A Post-Secondary Student Financial Aid Attitudinal Survey (May, 1973)

This report focuses on public attitudes toward student assistance. Topics included are accessibility to post-secondary education, eligibility of students for aid, and the role of government in educational assistance. This segment of the program was conducted by KHEAA in cooperation with the Southern Regional Office of the College Entrance Examination Board.

Phase II: Socioeconomic Influences on the Educational and Career Paths of Kentucky High School Seniors (September, 1973)

This report provides a broad range of data describing college and

occupational bound high school juniors and seniors. Included are student demographic data, characteristics of the high schools, the students' future plans and their levels of acquaintance with existing aid programs. This segment of the program was conducted by KHEAA in cooperation with the American College Testing Program, Inc.

Phase III: A Survey of Student Financial Aid Resources in Kentucky (July, 1973)

This report includes the types and amounts of aid presently available in the Commonwealth and classifies them according to their accessibility to students. This segment of the program was conducted by the Southern Regional Office of the College Entrance Examination Board.

Phase IV: An Analysis of the Aggregate Financial Needs of Kentucky Post-Secondary Students (September, 1973)

This report deals with the effects of resource availability on aspiration attainment and includes a determination of how much additional funding is necessary to meet full financial needs of Kentucky students. This segment of the program was conducted by the Southern Regional Office of the College Entrance Examination Board.

A detailed review of Phases I-IV is presented in the next section of this final report. Phases I-IV have been completed as useful background sources. Phase V of the research project has had, as its major objective, the development of model student assistance programs for the Commonwealth.

1.2 Objectives and Tasks of Phase V:

Phase V has included a work plan which has been undertaken in three sub-phases. These are:

Sub-Phase 5.1: Review and Summarize

Major objectives of Sub-Phase 5.1 included providing KHEAA a review and summarization of the previous four phases of its five-phase research program as well as a review of pertinent student assistance plans and trends in other states. In addition, the study team was requested to propose a set of goals and objectives for the consideration of the KHEAA and as background, for the work in Sub-Phase 5.2, the identification and assessment of alternative model student assistance programs for Kentucky and for the work in Sub-Phase 5.3, the development and documentation of alternative strategies. Sub-Phase 5.1 has also provided the study team an opportunity to search the data and information sources, both within the Commonwealth and elsewhere, as bases for the development of model student assistance programs.

Sub-Phase 5.2: Identify and Assess Alternative Models

The work of Sub-Phase 5.2 has included the identification of alternative model student assistance programs, with consideration given to the existing tuition grant and the proposed KHEAA Student Loan Program. Criteria for the selection of feasible alternative models, based upon the findings of Phases I - IV of the study, were established. Finally, the alternative model student assistance programs and mixes of programs have been assessed on the basis of established criteria.

Sub-Phase 5.3: Develop and Document Alternative Strategies

The work of this Sub-Phase 5.3 has included the development of alternative student assistance system strategies, including the analysis of necessary structures, personnel, costs as well as the content and scope of attendant legislation necessary for the implementation of each alternative model or mix. The advantages and disadvantages of each alternative model have been documented; and projections of short - (1-2 years), intermediate - (4-6 years), and long-range (8-10 years) costs for each option have been made.

A complete outline of the Tasks and Activities of Phase V is provided in Appendix B.

1.3 Orientation to this Report

The remaining section of the final report include a review and summary of phases I - IV, a review of student assistance plans in other states, and a set of proposed goals and objectives of the Kentucky Higher Education Assistance Authority. Final sections of this report provide identification and assessment of alternative model student assistance programs, development and documentation of alternative strategies and a summary of study recommendations. Companion documents to this report include the study Abstract, which provides a brief overview of the findings and recommendations contained in this document. The document Data Profiles: Model Student Assistance Programs for Kentucky, provides background and supporting documentation for the findings and recommendations of the study.

II. REVIEW AND SUMMARY OF PHASES I-IV

2.1 Introduction

The Kentucky Higher Education Assistance Authority (KHEAA) has completed four phases of a research program on post-secondary student financial needs and resources in the Commonwealth: 1) Phase I, A Post-Secondary Student Financial Aid Attitudinal Survey; 2) Phase II, A Survey of Post-Secondary Aspirations of Kentucky High School Students; 3) Phase III, A Survey of Student Financial Aid Resources; and 4) Phase IV, An Analysis of the Aggregate Financial Needs of Kentucky Post-Secondary Students.

In this section, we have reviewed the findings of each phase, summarized the findings as they related to all phases, and discussed the findings as they may relate to alternative model student assistance programs for the Commonwealth.

2.2 Phase I: A Post Secondary Student Financial Aid Attitudinal Survey

2.2.1 Survey Design

The purpose of this study was to report on data collected by the Higher Education Assistance Authority of the Commonwealth of Kentucky. A survey instrument was designed and administered to six primary groups: 1) Legislators; 2) Post Secondary Educators; 3) Policy Boards; 4) Secondary Educators; 5) Parent Teachers Association Presidents; and 6) Kentucky Education Association. Secondary education and parent teacher association presidents comprised approximately 85 percent of the respondents.

In part of the survey, respondents were asked to express their opinion of

a series of statements on a four-point scale from "Strongly Agree" to "Strongly Disagree". Another section called for respondents to rank four types of student aid programs in order of their preference. The student aid programs serving as choices were: 1) loans, repayable with low interest upon completion or withdrawal from the educational programs; 2) grants, non-payable money awards based on financial need; 3) scholarships, non-repayable money awards based on academic achievement, academic potential or a special talent; and 4) work study, employment during the school term for limited hours per week.

The survey elicited opinions of the respondents in the following general categories:

1. Equal access to post-secondary education;
2. Who should pay for post-secondary education?
3. Which students should be eligible?
4. Types of educational programs which should be supported;
5. The role of state government in financing post-secondary education;
6. Methods of financing student aid programs;
7. Types of student aid programs which should be funded;
8. Student aid program preferences;
9. Methods of distributing student aid funds;
10. Eligible institutions;
11. Funding related to career objectives.

2.2.2 Results of the Survey

All of the groups responding to the questionnaire favored "equal assess" to post-secondary education recording an overall mean of 3.1 on the four-point scale

on which a score of 4 indicated that they were in strong agreement with the item relating to "equal access". As a group, the Legislators recorded the highest mean (3.4),followed by post-secondary educators (3.3), Kentucky Education Association (3.3), Secondary educators (3.1), Parent Teachers Association Presidents (3.1), and policy boards (2.9).

Of interest is the way in which the people responded to two of the questions relating to equal access. The overall mean scores appear to be significantly lower for the following items:

- Economic and social barriers to post-secondary education are not serious problems in Kentucky.
- Kentuckians who want to continue their education beyond high school should have the opportunity to choose the institution without regard to cost or their ability to pay.

The overall mean scores for the other items relating to "equal access" ranged from 3.1 to 3.5. Interestingly, the group mean scores varied considerably for the statement, "economic and social barriers . . . . .are not serious problems in Kentucky", with a range in mean scores of 2.8 to 3.4. Post secondary educators, and Kentucky Education Association presidents saw the problem as much less serious than Legislators and secondary educators. However, the overall mean of 2.9 for this item suggests that few people felt the problem was serious.

In reacting to the statement "Kentuckians . . . should have the opportunity to choose the institutions without regard to cost or ability to pay" the respondents mean was 2.4, indicating that many did not favor this concept.

Responses to this section of the survey instrument,"who should pay for post-secondary education", indicated that parents, students, and the state should share in the responsibility of paying the costs for post-secondary education. They did

believe that the state could do more in the way of providing low cost institutions for post-secondary education.

In statements relating to student eligibility, respondents favored making full-time, half-time, and part-time students eligible for financial aid. The respondents were consistently against awarding aid solely on the basis of financial need and even more against awarding aid solely on the basis of academic ability. Responses showed that the groups overall believed that students needed to prove financial need and that students should have at least average academic ability. No discrimination was suggested for aid to students on the basis of degree sought.

Respondents, overall, tended to agree that the state aid to students was necessary and that it should be given a high priority. However, respondents did not give strong reaction to any one method of financing students and programs.

When asked to react to types of students and programs and to indicate student and program preferences each group favored the idea of state support for loans, work study, and scholarships although they did not express overall agreement for a state supported grant program. In ranking the programs, loans, work study, scholarships and grants, all groups selected the loan program as their first choice and most agreed that the work study program was second. Both choices required either repayment or employment, thus reflecting the belief that the individual should share in the responsibility of paying the cost of his post-secondary education.

Four methods of distribution of aid were appraised by the respondents: (1) arrange applicants in order by academic ability and make full awards

starting with the most capable; (2) arrange the applicants in order by financial need and make full awards starting with the most needy; (3) arrange the applicants in order by date of application and make full awards starting with the earliest application; and (4) reduce the aid amounts per student in order to aid more students. All groups of respondents approved "arranging applicants by financial need" and also "reducing aid amounts in order to assist more students." Rejected was the plan to "arrange by date of application" while "arranging the applicants in order of academic ability" received a modicum of support.

The survey instrument also required respondents to indicate the types of institutions, state supported, non-state supported, and proprietary, which should be eligible for aid. The results showed that respondents reacted more favorably to giving state supported institutions aid than to non-state supported or proprietary; however, more were in favor of giving non-state supported schools aid than were in favor of proprietary aid.

When asked to state how they felt about state aid to student bankers, secretaries, morticians, musicians, teachers, accountants, physicians, lawyers, and dentists, the respondents were willing for the state to provide financial aid to students in all of these categories. The range of the overall mean ratings was from 2.6 (bankers, morticians) to 3.2 (teachers). Teachers (3.2), physicians (3.2), and dentists (3.1) received the highest ratings.

2.3 Phase I: Socioeconomic Influences on the Educational and Career Paths of Kentucky High School Seniors

The study was completed in response to Kentucky Higher Education Assistance Authority's (KHEAA) concern about factors which constrain

students' particular choices of educational and career paths after leaving high school.

A special questionnaire was cooperatively constructed by the American College Testing Program (ACT) and KHEAA. KHEAA constructed the 121-item questionnaire by using ACT's item pool and by writing new items. The questionnaire was administered to a ten percent random sample of Kentucky high school juniors and seniors in the Spring of 1973 by their high schools.

At ACT the analyses were conducted in two stages which paralleled the instrument and the purposes of the study. That is, the first set of analyses focused on the factors associated with the decision to pursue or not pursue post-secondary education which has been called the transition decision. The second set of analyses focused on the institutional choice decision of those students who planned on pursuing post-secondary education. Moreover, the analyses were based on data only for seniors because it was believed the outcomes of their transition and institutional choice decisions would be more stable than those of the juniors.

2.3.1 The Transition Decision

The student choice to pursue or not pursue post-secondary education has associated with it the following limiting factors: (1) family income; (2) rank in the graduating class; (3) high school rank in class; (4) high school curriculum; (5) number of children in the family; (6) knowledge of sources of financial assistance; and (7) the expected cost of post-secondary education. Thus, post high school students may be classified as post-secondary bound (PSB) or occupational bound (OB). The relationships of the limiting

factors to educational and career paths, the transition decision, are discussed in this section as it was reported in the study.

The decision of whether or not seniors planned to enter college was found to be related to four limiting factors: (1) their high school curriculum program; (2) their high school average; (3) their family's annual income; and (4) their expected cost of education. It was stated in the summary of the study that students with the following characteristics were underrepresented among PSB seniors in Kentucky as compared to the proportion of PSB seniors in the population: (1) students in all curriculum programs except college preparatory; (2) students with "C" or lower high school averages; (3) students whose family income is less than $9,000 per year; and (4) students from families with six or more children.

The only high school program which could have been classified as a limit on the transition decision was the agricultural-farming program.

Grade-wise, 73% of the Kentucky seniors with "C" averages were classified as OB while only 23% of the seniors with "A" and "B" averages were so classified.

Deviation from expected post secondary career and education paths were found to be related to both per capita income and academic success in high school among seniors in different high school curriculum programs. Although strong relationships were identified, it was not concluded that these were causal relationships - i.e., awarding students higher grades will not necessarily alter the post-secondary plans of students.

This phase of the study concluded that PSB students were from families with higher incomes, experienced greater academic success in high school,

were more likely to have been in college preparatory high school programs, and expected lower cost of post-secondary education than OB students.

2.3.2 The Institutional Choice Decision

In addition to the relationship between various high school experiences and socioeconomic factors and the outcomes of the institutional choice process, two other topics were discussed in this section: (1) The congruence between the expected cost of post-secondary education as indicated by seniors; and (2) the actual cost. Furthermore, the relationships among family income, expected costs, expected family contribution and actual costs were presented.

No single factor was found to be a determinant of the type of institution students expect to attend. Major public universities, regional universities, and community colleges attract students from all ranges of high school curriculum, high school averages, family income, expected family contribution to financial support, and knowledge of sources of financial assistance.

Perhaps the most striking observation was the difference in the family income among the prospective major university, regional university and community college students. There was a greater difference in the family income of the prospective major university students and the prospective regional university students than between the latter group and prospective community college students. This does not mean that cost is a barrier to the major public universities in Kentucky. In fact, students reported that they expected to attend the type of institution they prefer. Thus the data did not support the thesis that the cost of post-secondary education is an effective barrier to keeping preferences from becoming realities for Kentucky seniors.

This conclusion suggests that preferences may be a function of socioeconomic status and formed earlier in the educational years. The implication is that if the goal is established to see to it that students from families with different levels of annual income are equally represented in the major public universities, simply providing more financial assistance will not lead to the achievement of the goal. In summary, this section of the study indicated that:

1. Students in college preparatory programs in high school were overrepresented in the groups of students planning to enter Kentucky major public universities, private four-year universities, and out-of-state, four-year colleges. They were underrepresented in the PSB seniors planning to attend all other types of institutions.

2. Seniors in vocational-technical high school programs are over-represented in the group of PSB seniors planning to attend community colleges.

3. Seniors in general and combined and business and commercial high school programs are overrepresented among PSB students planning to attend regional universities and community colleges.

4. PSB seniors with "A" and "B" average are overrepresented among students planning to attend the major public universities in Kentucky and underrepresented among those planning to attend regional universities and community colleges.

5. Students with "C" averages are overrepresented in regional universities and community colleges in Kentucky.

6. PSB seniors from families with less than $12,000 annual income are underrepresented among those PSB students planning to attend the major public universities in Kentucky.

7. PSB seniors from families with less than $6,000 annual income are underrepresented among those PSB students planning to attend regional universities in Kentucky.

8. PSB seniors from families with less than $3,000 are underrepresented among the PSB students planning to attend public community colleges in Kentucky.

In addition it was found: (1) that students expected to attend the type of institution they preferred to attend; (2) that the respondents were not very

accurate in their estimates of the cost of post-secondary education; and (3) that on the average parents apparently do not expect to contribute more than 10% of their income to the support of their PSB offspring during his/her first year out of high school.

2.4 Phase III: A Survey of Student Aid Resources in Kentucky.

The purpose of this study was to determine the amount and availability of student financial aid resources for Kentucky undergraduate students planning to attend an institution of post-secondary education in the Commonwealth. Institutions providing education beyond high school surveyed for student financial aid resources were public and non-public four year colleges and universities, private two-year colleges, community colleges, vocational-technical schools, business colleges and Bible colleges as well as approved trade and technical schools in Kentucky. A separate survey of Federal and State agencies and private and public foundations providing student financial aid in Kentucky also was conducted. Procedures utilized in the study sought to eliminate available student financial aid awarded to graduate students, athletes, and less than full-time students.

The data collected pertained to the 1971-72 school year when the total available student financial aid in the Commonwealth of Kentucky was $67,454,793. Comprising the total were four components or sources: (1) state and federal educational benefits; (2) federal student aid programs; (3) institutional student aid programs; and (4) private student aid programs.

2.4.1 Available Student Aid

Student aid for Kentucky undergraduate students available from the Kentucky Department of Economic Security, Division of Vocational Rehabilitation,

Veterans Administration, and Social Security Administration, were combined as state and federal educational benefits and totaled $35,938,202.

The federal student aid available to Kentucky undergraduate students was determined to be $13,919,436. The student aid programs included in this category were the National Defense Student Loan Program, the Educational Opportunity Grant Program, the College Work-Study Program, the Law Enforcement Education Program, and the Nursing Student Assistance Programs.

The institutional student aid available for Kentucky undergraduate students included all non-federal, institutionally administered student aid, including scholarships, loans, and student employment opportunities. The total assistance available in this category was $7,511,155. Table 2.4.1 below provides the total and the sources.

TABLE 2.4.1

AVAILABLE STUDENT AID IN THE COMMONWEALTH OF KENTUCKY
1971-72

Sources of Student Aid	Amount
State and Federal Educational Benefits	$35,938,202
Federal Student Aid Programs	13,919,436
Institutional Student Aid Programs	7,511,155
Private Student Aid Programs	10,086,000
Total Available Student Aid in the Commonwealth of Kentucky	$67,454,793

Student aid available for Kentucky undergraduate students from private sources was found to be $10,086.000. Funds included in the private student aid category were from the Pickett and Hatcher Educational Fund, the Federally Insured

Student Loan Program the United Student Aid Funds, and the Kentucky foundations as listed in the Directory of Foundations. It was not possible to identify all of the available student aid sponsored by private organizations and other sources. Therefore, approximately one percent of the total available student aid in the Commonwealth of Kentucky in 1971-72 was added to the private student aid category in order to accommodate for funds available from otherwise unidentifiable or non-responding sources.

2.4.2 Student Aid by Degree of Availability

Categories of student aid were defined as general, limited, and restricted. Included in the general category were nonfederal student aid funds from scholarships, loans, and part-time employment administered by the institutions providing education beyond high school in Kentucky. The student aid funds available from the National Defense Student Loan Program, the Educational Opportunity Grant Program, and the College Work-Study Program were included in this category as well as student aid funds from foundations which were reported to be generally available to Kentucky undergraduate students.

The student aid which was limited in degree of availability included the institutionally administered non-federal student aid funds from scholarship, loan and part-time employment programs. Federal student aid available to undergraduate students from the Nursing Student Assistance Program, and the Law Enforcement Education Program also were included in this category, as were funds from the federally insured student loan program, the United Student Aid Funds, the Pickett and Hatcher Educational Fund, and those funds indicated by the foundations in the state to be limited in availability to Kentucky undergraduate students.

The student aid which was restricted in degree of availability included the non-federal, institutionally-administered scholarship, loan and employment programs which were designated by the institutions to be restricted in degree of availability. Funds listed by the foundations as restricted in degree of availability were also included in this category. The state and federal educational benefits from the Kentucky Department of Economic Security, Division of Vocational Rehabilitation, Veterans Administration and Social Security Administration, were included in this category as well as the student aid funds estimated to be available from otherwise unidentifiable or non-responding sources. Table 2.4.2 below shows the dollar amounts comprising each category.

TABLE 2.4.2

STUDENT AID BY DEGREE OF AVAILABILITY

Degree of Availability	Amount
General	$17,768,727
Limited	12,357,614
Restricted	37,328,452
Total	$67,454,793

2.4.3 Types of Student Aid by Degree of Availability

Four types of student aids were identified: scholarships, loans, employment (work-study) and grants. The total of $67,454,793 was distributed across the student aid types as follows: (1) scholarships, $6,473,466; (2) loans, $16,848,142; (3) employment (work study), $8,194,983; (4) grants, $35,938,202. Table 2.4.3 gives the allocation of monies by type and

degree of availability.

TABLE 2.4.3

TYPES OF STUDENT AID BY DEGREE OF AVAILABILITY

Availability	Scholarships	Loans	Employment	Educational Benefits Grants	Total
General	$4,164,429	$ 6,508,470	$7,095,828	--	$17,768,727
Limited	1,674,930	10,316,368	366,316	--	12,357,614
Restricted	634,107	23,304	732,839	$35,938,202	37,328,452
Total	6,473,466	16,848,142	8,194,983	35,938,202	67,454,793

2.4.4 Student Aids by Types of Institutions

Types of public and non-public institutions reporting data for this part of the study were: (1) major public universities, (2) regional public universities, (3) public community colleges, (4) public vocational-technical schools, (5) non-public four-year colleges; (6) non-public two-year colleges, (7) business colleges, and (8) Bible colleges.

Financial data were reported by types of institution, types of student aid and degree of availability. Social security benefits were also determined and distributed among the types of institutions in proportion to the enrollments in these categories. Table 2.4.4 displays the types of student aid by categories of institution, types of students and degree of availability.

TABLE 2.4.4

STUDENT AID BY TYPES OF INSTITUTIONS BY DEGREE OF AVAILABILITY

TYPES OF INSTITUTIONS	SCHOLARSHIPS	LOANS	EMPLOYMENT	BENEFITS	TOTAL
PUBLIC					
Major Universities					
General	$ 784,095	$ 1,106,666	$ 1,483,332		$ 3,374,093
Limited	264,794	2,255,538	--		2,520,332
Restricted	407,307	900	184,950	$ 7,161,531	7,754,688
Sub Total	1,456,196	3,363,104	1,668,282	7,161,531	13,649,113
Regional Universities					
General	1,291,759	2,963,515	2,257,822		6,513,096
Limited	645,812	3,355,700	324,656		4,326,198
Restricted	42,925	3,125	526,917	10,543,695	11,116,662
Sub Total	1,980,496	6,322,340	3,109,395	10,543,695	21,955,926
Community Colleges					
General	126,444	104,737	251,366		482,547
Limited	81,775	732,360	4,595		818,730

TYPES OF INSTITUTIONS	SCHOLARSHIPS	LOANS	EMPLOYMENT	BENEFITS	TOTAL
Restricted	$ 20,231	--	$ 2,100	$ 2,245,054	$ 2,267,385
Sub Total	228,450	$ 837,097	258,061	2,245,054	3,568,662
Public					
Vocational-Technical Schools					
General	8,440	152,627	--		161,067
Limited	5,700	1,882,342	--		1,888,042
Restricted	600	--	--	9,314,163	9,314,763
Sub Total	14,740	2,034,969	--	9,314,163	11,363,872
Non-Public					
Four-Year Colleges					
General	1,548,153	1,872,441	2,111,152		5,531,746
Limited	602,935	1,384,567	37,065		2,024,567
Restricted	158,252	19,279	18,872	4,347,002	4,543,405
Sub-Total	2,309,340	3,279,287	2,167,089	4,347,002	12,099,718
Two-Year Colleges					
General	383,191	213,239	765,473		1,361,903
Limited	45,414	165,740	--		211,154

TYPES OF INSTITUTIONS	SCHOLARSHIPS	LOANS	EMPLOYMENT	BENEFITS	TOTAL
Restricted	$ 4,125	--	--	$ 499,086	$ 503,211
Sub Total	432,730	$ 378,979	$ 765,473	$ 499,086	$2,076,268
Business Colleges					
General	4,216	78,965	125,225		208,406
Limited	13,374	310,979	--		324,353
Restricted	--	--	--	1,079,649	
Sub Total	17,570	389,944	125,225	1,079,649	1,688,408
Bible Colleges					
General	18,132	16,280	101,458		135,870
Limited	15,125	229,142	--		244,267
Restricted	667	--	--	748,022	748,689
Sub Total	33,924	245,422	101,458	748,022	1,128,826
Kentucky Total	$6,473,466	$16,848,142	$8,194,983	$35,938,202	$67,454,793

2.5 Phase IV: An Analysis of the Aggregate Financial Needs of Kentucky Post-Secondary Students

Two objectives were the focus of this study; to estimate financial need of the educational system and to determine areas of greatest need so that priorities can be identified which most efficiently use available funds. To determine the financial aid needs, four factors were used as the basis for the analysis: (1) self-help, (2) parental contribution, (3) income distribution data for the families of the relevant group of students; and (4) expected out-of-pocket costs or total budgeted expenses for students at the institutions they plan to attend.

The aggregate need analyses rely upon the use of averages in estimating costs and income for similar groups of institutions and students. Models were constructed for students attending public and non-public, four and two-year institutions, vocational-technical schools, and proprietary institutions.

2.5.1 Financial Need 1971-72

Seven groups of Kentucky institutions were considered in the analysis of financial needs for undergraduates.

Major Universities - Public
Regional Universities - Public
Four-year Colleges - Non Public
Two-year Colleges - Non Public
Community Colleges
Vocational-Technical Schools
Proprietary Institutions.

The groups were analyzed for the academic year 1971-72 and 1973-74 and financial need estimates were made for 1973-74 based on the effects of the Basic Education Opportunity Grants and the aspirations for educational attainment expressed by Kentucky secondary school students in an analysis of the Phase II study. It was assumed that for each category of institution

the average student self-help was $500 per year for males and $400 per year for females. Further, it was assumed that the following parental contributions would be made by income interval.

Income Interval	Parental Contributions
Less than $6,000	$ 0
$6,000 - $8,999	$ 210
$9,000 - $11,999	$ 820
$12,000 - and above	$ 1,453

Other input data used are shown in Table 2.5.1 which follows. The number of students, distribution by sex, student budgets and commuting percentage were computed for 1971-72.

TABLE 2.5.1

UNDERGRADUATE STUDENT DATA RELATING TO GROUPS OF KENTUCKY POST-SECONDARY INSTITUTIONS FOR 1971-72

	NO. OF STUDENTS	DISTRIBUTION BY SEX M%	F%	STUDENT BUDGETS Residents	Commuters	COMMUTER PERCENTAGE
Major Universities-Public	21,130	61%	39%	$1,898	$1,596	31%
Regional Universities-Public	30,966	53%	47%	$1,685	$1,185	17%
Four-Year Colleges-Non-Public	12,838	50%	50%	$2,498	$2,214	35%
Two-Year Colleges - Non-Public	1,485	45%	55%	$2,323	$1,772	35%
Community Colleges	6,622	49%	51%	$1,650	$1,100	95%
Vocational-Technical Schools	7,639	71%	29%	$1,989	$1,439	95%
Proprietary Institutions	2,996	35%	65%	$2,495	$2,084	80%

The total budget cost was calculated for each income group in each category of institution; then the total parental contribution and total student self-help was subtracted from the total budget cost to yield the total need. (For the results by income group and type of institution, see "An Analysis of the Aggregate Financial Needs of Kentucky Post-Secondary Students" prepared by

the Southern Regional Office of the College Entrance Examination Board, September 1973.) Here we will show only the totals by institution in Table 2.5.2.

TABLE 2.5.2

FINANCIAL AID NEEDED BY TYPE OF INSTITUTION, 1971-72

	(1) TOTAL BUDGET COSTS	(2) TOTAL PARENTAL CONTRIBUTION	(3) TOTAL STUDENT HELP	(1) - ((2)+(3)) TOTAL NEED
ajor Universities-Public	$38,128,236	$17,768,035	$9,741,500	$11,591,528 *
eg. Universities-Public	$49,545,710	$18,917,503	14,027,500	$19,158,955 *
4-Year Colleges-Non-Pub.	$30,802,452	$ 8,586,874	5,777,220	$16,438,378
-yr. Colleges-Non-Public	$ 3,165,458	400,182	660,800	$ 2,104,476
ommunity Colleges	$ 7,466,800	$ 4,704,765	1,973,300	$ 1,677,810 *
Voc.-Tech. Schools	$11,202,621	$ 4,126,743	3,598,000	$ 4,247,012 *
Proprietary Institutions	$ 6,492,348	$ 1,197,350	1,303,700	$ 3,991,298
Kentucky Total				$59,209,457

*These figures contain contributions which exceed the amount needed by the highest income group.

The analysis shows that the need in 1971-72 was 59.2 million dollars compared to 30.1 million dollars which was reported in the Phase III Study to be available in the general and limited categories of student aid funds in 1971-72. These figures show that 29.1 million dollars in additional funds were needed for distribution on the basis of a financial need determination. Admittedly, the entitlement programs (restricted funds) would reduce the need gap. However, the distribution of these aid resources to many non-needy students, combined with the lack of an institutional ability to target these funds, makes it improbable that a significant reduction in the need gap results from the distribution of the restricted funds. In addition, where family income and assets indicate a level of parental contribution that exceeds costs, there is no method for extracting this excess and distributing it to other needy students.

The study showed that the largest percentage of money was needed at the lowest income level, less than $6,000, while a very small percentage was needed at the $12,000 and above level. The percentage and dollar amounts needed by income level were calculated as shown in Table 2.5.3.

TABLE 2.5.3

NEEDS BY INCOME LEVELS, 1971-72

	Less than $6,000	$6,000 to $8,999	$9,000 to $11,999	$12,000 & above	TOTAL
Total	$27,795,875	$20,834,040	$8,412,439	$2,167,103	$59,209,457
Percentage	46.9	35.2	14.2	3.7	100.0

Undergraduate student financial need for 1971-72 was also determined and again the students having the greatest need were those in the lower income intervals. The average amount of aid required per student who demonstrated need varied with the type of institution, with the range being $551 at community colleges to $1,417 at the two-year non-public colleges.

2.5.2 Projected Financial Need: 1973-74

Models were developed under three differing sets of conditions: actual 1973-74 estimations; 1973-74 estimations including the potential effects of the Basic Education Opportunity Grant Program; and 1973-74 estimations based on the aspirations for educational attainment as expressed by Kentucky secondary schools in the Phase II study.

The expected parental contribution was revised in accordance with the CSS Need Analysis using 3.3 dependent siblings per family in the determination of expected contributions. The following values were used for all seven groups of institutions:

TABLE 2.5.4

Need Gaps by Types of Institutions and Income Intervals: 1973-1974

Type of Institutions	Income Intervals				Total
	Less than $6,000	$6,000 to $8,999	$9,000 to $11,999	$12,000 and above	
Major Universities-Public	$ 5,082,942	$ 6,242,558	$ 2,962,696	$ --	$14,288,196
Regional Universities-Public	11,992,586	10,538,758	2,781,093	--	25,312,437
Four-Year Colleges-Non-Public	7,944,576	4,917,484	3,098,953	2,572,166	18,533,179
Two-Year Colleges-Non-Public	1,982,333	749,890	196,043	64,464	2,992,730
Community Colleges	873,000	1,122,064	--	--	1,995,064
Vocational-Technical Schools	4,143,424	2,526,595	574,842	--	7,244,861
Proprietary Institutions	3,549,022	3,101,324	1,184,220	475,459	8,310,025
Total	$35,567,883	$29,198,673	$10,797,847	$3,112,089	$78,676,492
Percent of Total	45.2	37.1	13.7	4.0	100.0

Income Intervals	Parental Contributions
Less than $6,000	$ 0
$6,000 - $8,999	$ 118
$9,000 - $11,999	$ 927
$12,000 and above	$1507

Thus the total need in 1973-74 was projected to be $78,676,492. When the estimated amount of the Basic Opportunity Grants were subtracted, ($2,200,000) the total is $76,676,492. If all of the students continued their education in proportion to their aspirations as reported in the Phase II study, the total estimated need would be $86,400,000 in 1973-74. The financial need gaps based on these input data as they were determined in the Phase IV study are shown in Table 2.5.4.

2.6 Summary

The four studies relating to student aspirations, financial aid resources and the effects of resource availability on aspiration attainment combine to yield a comprehensive representation of the financial aid needs of undergraduate students attending post-secondary institutions in Kentucky in 1971-72 and 1973-74. Student aid programs are identified for the institutions by type and degree of availability. Four types of aid are referenced in each study: (1) loans, (2) grants or benefits, (3) scholarships, and (4) work-study or employment.

Groups of institutions in Kentucky were identified as public and non-public with the following institutions within each category:

Public

Major Universities
Regional Universities
Community Colleges
Vocational-Technical Schools

Non-Public

Four-year colleges
Two-year colleges
Business colleges
Proprietary institutions

2.6.1 Financial Aid Resources, 1971-72

In 1971-72 the total student aid available in the Commonwealth of Kentucky was $67,454,793: (1) $6,473,466 for scholarships; (2) $16,848,142 for loans; (3) $8,194,983 for work study; and (4) $35,938,202 for state and federal benefits. By types of institutions, the student financial aids were distributed as follows:

TABLE 2.6.1
STUDENT FINANCIAL AID BY TYPES OF INSTITUTION, 1971-72

Public	Monetary Amount	Enrollment	Monetary Amount Per Student
Major universities	$13,649,113	21,130	$646
Regional Universities	21,955,926	30,966	$709
Community Colleges	3,568,662	6,622	$539
Vocational-Technical Schools	11,363,872	7,639	$1,488
Non-Public			
Four-Year Colleges	12,099,718	12,838	$942
Two-Year Colleges	2,076,268	1,485	$1,398
Business Colleges	1,612,408	N/A	
Proprietary	1,128,826	2,996	$377
	$67,454,793		

Thus, regional universities garnered the greatest amount, followed somewhat closely by major universities, four-year colleges, and vocational-technical schools. More detailed analysis is given in Section 2.3 of this report. Clearly, the dollar amount per student has a wide-range assuming enrollment has a standard definition for all institutional types. Where the rank of the institutions is determined by dollar amounts per student, the vocational-technical schools are

at the upper end of the scale while major universities, regional universities and four-year colleges represent the middle of the distribution.

2.6.2 Financial Need

The total Kentucky financial aid need determined in the Phase IV study for 1971-72 was 59.2 million dollars, approximately 29.1 million in excess of the general and limited resources reported in the Phase III report.

In the Phase III report, 17.8 million dollars of the 67.5 million available dollars was to be generally available on the basis of need. The precise definition of "generally available funds" is "unrestricted funds generally but not completely, based upon need, for which the largest number of applicants can qualify and from which the largest number may receive assistance." The 59.2 million dollars of aid needed, minus the 17.8 million dollars of aid generally available, leaves 41.4 million dollars in unmet need.

Total financial aid needed by type of institution in 1971-72 was calculated by subtracting total parental contributions and total student self help from the total budget costs for each type of institution. The results are shown in Table 2.6.2.

The study showed that the largest percentage of money was needed at the lowest income level, less than $6,000, while a very small percentage was needed at the $12,000 and above level.

2.6.3 Projected Financial Need, 1973-74

The estimation models developed showed that the need for 1973-74 was $78,676,492 excluding the Basic Education Opportunity Grant program. These estimates did not take into consideration the student aspirations for attainment

TABLE 2.6.2

FINANCIAL AID NEEDED BY TYPE OF INSTITUTION, 1971 - 72

Type of Institution	Total Need
Major Universities - Public	$11,591,528 *
Regional Universities - Public	19,158,955 *
Four-Year Colleges - Non-Public	16,438,378
Two-Year Colleges - Non-Public	2,104,476
Community Colleges	1,677,810 *
Vocational-Technical Schools	4,247,012 *
Proprietary Institutions	3,991,298
Kentucky Total	$59,209,457

*These figures contain contributions which exceed the amount needed by the highest income group.

as expressed in the Phase II study. When these factors were considered, the total estimate of need for 1973-74 was $86,400,000. Again, the lower income interval, less than $6,000, would receive the greatest percentage, 45.2%. The need gaps as reported in the Phase IV study excluding BEOG and Aspirational considerations were as follows:

TABLE 2.6.3

TOTAL PROJECTED FINANCIAL NEED, 1973-74

Type of Institution	Dollar Amount Needed	Average Amount of Aid Required by Students Who Demonstrate Need
Major universities	$14,288,196	1,087
Regional Universities-Public	$25,312,437	1,053
Four-year Colleges-Non-Public	$18,533,179	1,443
Two-Year Colleges-Non-Public	$ 2,992,730	1,633
Community Colleges	$ 1,995,064	607
Vocational-Technical Schools	$ 7,244,861	911
Proprietary Institutions	$ 8,310,025	2,124
TOTAL	$78,676,492	N/A

2.6.4 Highlights of Phase I-IV Studies

Each study produced important information in planning for financial aid to students in the Commonwealth of Kentucky. In sections 2.2-2.5, the data and information were presented as they related to each phase of the study. After analyzing those data and analyses, the major points were identified as follows:

- People responding to the attitudinal survey favored "equal access to post-secondary education."
- Respondents to the attitudinal survey felt that the state should do more in the way of providing low-cost institutions for post-secondary instruction. They also indicated that costs should be shared by parents, students and the state.
- When questioned further, the people of Kentucky said that financial need should be proved by students.
- Results of the attitudinal survey showed the respondents to believe that recipient students should have at least average ability.
- A majority of people favored state support for loans, work study, and scholarships. They did not support grants.
- Loan programs were given highest priority by survey respondents in the Phase I study while work study was ranked second.
- Respondents of the survey in the Phase I study favored distribution of aid by arranging applicants by financial need.
- In the Phase I study, respondents reacted more favorably to aid for public than for non-public or proprietary institutions.

- In the Phase II study, it was determined that the decision by students of whether or not to enter college was related to four factors: (1) their high school curriculum program; (2) their high school average; (3) their family's annual income; and (4) their expected cost of education.
- No single factor was found to be a determinant of the type of institution students expected to attend.
- Family incomes correlate highly with the type of institution the student selected.
- On the average, parents do not expect to contribute more than 10% of their income to the support of their post-secondary bound offspring.
- The total available student aid in 1971-72 was $67,454,793 of which $30,126,341 was available in general and limited categories, and $37,328,452 was available in restricted category.
- The total Kentucky financial student aid need for 1971-72 was $59,209,457.
- The total financial aid need estimated for 1973-74 was $78,676,492. When student aspiration and BEOG grants are included in the estimate the total increases to $86,400,000.

III. REVIEW OF STUDENT ASSISTANCE PLANS IN OTHER STATES

3.1 Background

In a discussion of the student assistance plans utilized by other states, some issues will obviously be more critical than others. Likewise, some of the programs and associated concerns of the various states will be more applicable to Kentucky than others. In preparing this report we have attempted to present only the most salient information and have confined the discussion to only those issues of greatest concern to Kentucky. Thus, this writing does not purport to be an exhaustive description of all the programs and all of the efforts being made in all of the states. Rather, we have attempted to distill a large volume of documentation on the student assistance programs operating in other states into an understandable summary report.

It is likewise important to point out that this report represents a relatively brief yet systematic survey of the current efforts in all of the states. We have had to rely for the most part on existing documentation from the states, published materials, research reports, etc. Much of this was supplied through the generous assistance of the KHEAA staff.

The recently published Fifth Annual Report of the National Association of State Scholarship Programs (NASSP) is perhaps the single most useful source of information utilized in this report. Many of the tables presented herein are summaries of the data presented in this report. A word of explanation is in order. The NASSP report was prepared by Joseph Boyd of the Illinois State Scholarship Commission. While it contains the most current and accurate data available, it reports on only those states which have comprehensive state student assistance programs in operation. A listing of these states is presented in

Table 3.1.1. Although this is the majority of the states (twenty eight in all and representing more than 75% of the total U.S. population) not all states are represented.

TABLE 3.1.1

STATES WITH COMPREHENSIVE STUDENT ASSISTANCE PROGRAMS IN OPERATION *

Alaska	Maryland	Oregon
California	Massachusetts	Pennsylvania
Connecticut	Michigan	Rhode Island
Florida	Minnesota	South Carolina
Illinois	Missouri	Tennessee
Indiana	New Jersey	Texas
Iowa	New York	Vermont
Kansas	North Dakota	Washington
Maine	Ohio	West Virginia
		Wisconsin

Note: The State of Virginia has been reported to have passed enabling legislation for a comprehensive program but has not received funding. The proposal for a comprehensive program in Georgia was tabled by the Legislature.

* Source: NASSP Fifth Annual Survey

For our purposes, however, this information is sufficient. In this study we will assume that states without comprehensive programs are potentially similar to the states with comprehensive programs and that eventually they will develop toward programs similar to those in existence. Kentucky is in the process of developing alternative model student assistance programs and implementing a comprehensive program of its own. Thus, information on those programs already in existence is of greatest relevance. All references cited in this section are listed, by number, in Appendix A of this report. Appendix C is the KHEAA's request for student aid information from other states, the results of which helped provide background material for this review.

3.2. Critical Trends

In examining the information available from other states we have attempted to find answers to many of the recurrent questions facing financial aid administrators. Although completely definitive answers will not always be found, we can at least document how other states have answered them and observe trends that exist. The approach taken in preparing the NASSP Report involved the direct questioning of the states with regard to their position on a number of questions. It should be noted that the 28 states surveyed reported on 49 programs in existence within those states. The tables following within this section present summary data on those 49 programs. The reader should keep in mind that variation among particular programs may exist within any given state. Thus, on a question such as whether students attending out-of-state schools are eligible for aid, a state might possibly say "yes" for one program but "no" for another.

Table 3.2.1 presents the actual reponse of states to the question "Is a student enrolled in an out-of-state institution eligible?" In 40 Of the 49 programs the answer was "no".

TABLE 3.2.1

ARE STUDENTS ENROLLED IN OUT-OF-STATE INSTITUTIONS ELIGIBLE?*

	Programs	%
YES	9	18%
NO	40	82%
	49	100%

*Source: NASSP Fifth Annual Survey

There does not appear to be any significant difference between those programs for which students attending out-of-state institutions were eligible and those for which they were ineligible. In three states the students were eligible for one or more programs but not for others.

On the question of whether or not part-time students are eligible, the majority of programs in the states surveyed said "no". Table 3.2.2 shows the actual response of states to this question. One of the problems in providing financial assistance to part-time students appears to be finding

TABLE 3.2.2

ARE PART TIME STUDENTS ELIGIBLE? *

	Programs	%
YES	8	16%
NO	41	84%
	49	100%

*Source: Fifth Annual NASSP Report

a method of accurately determining their need. Also, the educational goals of part-time students are often unclear. (They do, however, constitute a significant part of the student population - 12% according to the U. S. Office of Education enrollment data for 1970-71).

The survey showed a strong trend among the states to provide assistance only to undergraduate students. Ninety percent of the programs surveyed limited eligibility strictly to undergraduate students. Table 3.2.3 shows the results. The apparent feeling of states is that, given limited resources with

TABLE 3.2.3

IS ELIGIBILITY IN THIS PROGRAM LIMITED TO UNDERGRADUATES? *

	Programs	%
YES	44	90%
NO	5	10%
	49	100%

*Source: Fifth Annual NASSP Report

which to provide financial aid to students, available funds are best spent in providing opportunities to entering freshmen and, in general, to undergraduate students. This is in keeping with the national trend of providing the opportunity for post-secondary education to as many as possible. For the most part, student assistance is provided to graduate students by individual institutions via graduate fellowship programs.

The majority of states do not specify academic ability or potential as a prerequisite for the award of need-based gift assistance. This does not represent a vast majority, however, as shown in Table 3.2.4. The trend seems to be

TABLE 3.2.4

IS SOME MEASURE OF ACADEMIC ABILITY OR POTENTIAL REQUIRED TO QUALIFY FOR A NEED BASED AWARD? *

	Programs	%
YES	21	43%
NO	28	57%
	49	100%

*Source: Fifth Annual NASSP Report

away from basing gift assistance on academic ability[1]. One reason many scholarships continue to be awarded on criteria other than need is that many

programs were estabished years ago under different conditions.[2] In past years it was much more popular to award scholarships on the basis of academic excellence or potential than it is today. Another reason is that athletic grants-in-aid, grants to musicians, and most graduate fellowships continue to be awarded on bases other than need.[3] We can reasonably expect to see in the future a gradual conversion from academically based scholarships to grants.[4]

The question here is whether honorary (no need) awards are conferred. (See Table 3.2.5) For the reporting programs, 80% did not confer honorary awards. For the programs which did make honorary awards, the question of whether recipients could apply for monetary awards if their financial situation worsened was posed. Their answers are provided in Table 3.2.6.

TABLE 3.2.5

ARE HONORARY (NO NEED) AWARDS CONFERRED? *

	Programs	%
YES	10	20%
NO	39	80%
	49	100%

*Source: Fifth Annual NASSP Report

TABLE 3.2.6

IF YOU CHECKED "YES" MAY AN HONORARY AWARD RECIPIENT APPLY FOR A MONETARY AWARD IF THE FAMILY FINANCIAL SITUATION WORSENS? *

	Programs	%
YES	7	70%
NO	1	10%
No Response	2	20%
	10	100%

* Source: Fifth Annual NASSP Report

States were fairly evenly divided on the question of whether awards were limited to tuition and fees as shown in Table 3.2.7. Three programs limited awards to tuition only. Those programs which did not limit awards to tuition and fees most frequently reported room & board as an allowable expense with the item books following closely (See Table 3.2.8).

TABLE 3.2.7

ARE AWARDS IN THIS PROGRAM LIMITED TO TUITION AND FEES? *

	Programs	%
YES	24	49%
NO	22	45%
Tuition Only	3	6%
	49	100%

* Source: Fifth Annual NASSP Report

TABLE 3.2.8

IF YOU CHECK "NO", PLEASE LIST OTHER COSTS COVERED. *

Other Costs Covered	Number of Programs
Room and Board	16
Books	13
Supplies	7
Personal	6
Transportation	5
Other Costs (Miscellaneous)	4
Any Educational Expense	2
All Costs	2
Supportive Services	1

* Source: Fifth Annual NASSP Report

Another relevant question concerns the rationale for making aid available to students attending for-profit institutions as opposed to the rationale for making aid available to students attending non-profit schools. In its 1970 report,[5] the North Carolina Legislative Study Committee argues that no difference of rationale exists. They cite the fact that proprietary schools often supply the models for curricula later adopted by technical institutes and community colleges and that graduates of proprietary schools gain highly marketable skills. From what we can tell of programs in other states, however, most would not agree. Table 3.2.9 shows that 80% of the programs surveyed by Boyd for the NASSP Report ruled for-profit schools ineligible.

TABLE 3.2.9

ARE FOR-PROFIT SCHOOLS ELIGIBLE
TO PARTICIPATE IN THIS PROGRAM? *

	Programs	%
YES	10	20%
NO	39	80%
	49	100%

* Source: Fifth Annual NASSP Report

States were asked whether they had a limitation by age or number of years beyond secondary school for first-time awards. The majority of reporting programs did not. (See Table 3.2.10)

TABLE 3.2.10

DO YOU HAVE A LIMITATION (EITHER STATUTE OR REGULATION) BY AGE OR NUMBER OF YEARS BEYOND SECONDARY SCHOOL FOR FIRST-TIME AWARD CONSIDERATION? *

	Programs	%
YES	14	29%
NO	35	71%
	49	100%

*Source: Fifth Annual NASSP Report

Similiarly, the majority of programs did not limit first-time application to the freshman year, as shown in Table 3.2.11.

TABLE 3.2.11

ARE STUDENTS WHO DID NOT APPLY FOR FRESHMAN YEAR CONSIDERED ELIGIBLE TO APPLY IN UPPERCLASS YEARS? *

	Programs	%
YES	34	69%
NO	15	31%
	49	100%

* Source: Fifth Annual NASSP Report

In similar proportions, reporting programs indicated that rejections did not preclude the possibility of reapplying and receiving aid in upperclass years. (See Table 3.2.12).

TABLE 3.2.12

ARE STUDENTS WHO WERE REJECTED (OTHER THAN HONORARY AWARDEES) ELIGIBLE TO APPLY IN UPPERCLASS YEARS? *

	Programs	%
YES	32	65%
NO	17	35%
	49	100%

*Source: Fifth Amnual NASSP Report

The largest number of reporting programs utilized the CSS need analysis system. Many used a combination of more than one system which accounts for the total of 66 reponses in Table 3.2.13. The importance of a reliable need

TABLE 3.2.13

WHAT NEED ANALYSIS SYSTEM IS USED FOR THIS PROGRAM?

System	Number Using	%
CSS	31	47%
Own System	16	24%
ACT	14	21%
System of Institution	4	5%
None	1	2%
	66	100%

analysis system cannot be overlooked. "The primary purpose of financial aid programs and, therefore, of financial need analysis is to permit students to attend college who could not otherwise afford to pay the expense." [6]

Definitions of financial need used in the states for which information was available are summarized with reasonable accuracy in the definition used by the Indiana State Scholarship Commission in its 1970 report to the Governor.[7] This definition states that financial need is "the difference between the cost of an education at a particular institution and the amount of money an applicant and his family can theoretically make available, from their income and assets, to meet the expenses of that education." This definition is also in agreement with that used by both the College Scholarship Service and American College Testing, Inc. Some programs, notably the Educational Opportunity Grants Program, (EOG) now replaced by S.E.O.G. utilized a more restrictive definition of financial need. In the case of the EOG program, need was defined in the absolute sense and was related only to the amount the parents of the applicant could contribute toward the expenses of education,[8] and later was further limited by a maximum income level of $8,999. This was the targeting principle. The new Basic Educational Opportunity Grant (B.E.O.G.) Program is even more restricting in its target area as it embodies a very severe "needs analysis" to meet the entitlement concept.

Documentation on the need analysis process available from various states points to the importance of individual institutions reviewing reported financial information and processed information and making necessary adjustments. Major reasons for making adjustments, as reported in a recent financial aid programs study in Florida are: (1) change in family income, (2) modifications in family circumstances, (3) unusual or unforeseen emergencies, (4) errors by machine or in information on the parents' financial statement, (5) alterations in summer earnings expectations, or (6) unreasonable farm contribution estimate.

Of note is the fact that a number of states, Illinois for example, have been successful in implementing a need analysis system of their own rather than using an external service. Generally this is done out of a desire to use their own expectations curves which they prefer to those of external services. In most cases, these effectively cut off monetary awards at a family income level lower than that of the other systems.

A related question is that of the amount of self-help to be expected of students. The NASSP report shows the amounts expected in 1972-73 for the programs surveyed. This information is shown in Table 3.2.14.

TABLE 3.2.14

IN 1972-73 WHAT WAS THE AMOUNT OF SELF-HELP EXPECTED FOR WINNERS IN THIS PROGRAM, IF ANY? *

Amount	Programs	%
NONE	8	17%
100-200	1	2%
200-300	0	0%
300-400	7	14%
400-500	4	8%
500-600	2	4%
600-700	3	6%
CSS Expected Summer Earnings	7	14%
½ of College Budget	2	4%
Varies with Individual	1	2%
No Definite Amount	1	2%
N/A	13	27%
	49	100%

*Source: Fifth Annual NASSP Survey

Table 3.2.15 shows expected parents' contribution for students entering college in the 1973-74 school year. These figures are based on CSS calculations and are revised periodically by the CSS to reflect changes in the economy. These figures are utilized by many states in performing financial need analysis. It should be noted that these are the gross curves which deal only with income. The curves used in the computer calculations are different and take into account such items as income and assets, number of children, liabilities as well as unusual circumstances. These are refined by a division of parental contribution into a maintenance contribution and a contribution from discretionary income which is divided by the number of children in the family who are enrolled in post-secondary education.

TABLE 3.2.15*

EXPECTED PARENTS' CONTRIBUTION FROM NET INCOME FOR STUDENTS ENTERING COLLEGE IN THE 1973-74 ACADEMIC YEAR**

(Note that "Net income" is the total income before taxes and other allowances have been subtracted.)

Net income before federal taxes	Number of dependent children				
	1	2	3	4	5
$ 5,000	$ 20	$ -170	$ -270	$ -350	$ -410
6,000	260	20	-100	-190	-250
7,000	510	210	70	- 40	-110
8,000	750	440	240	100	20
9,000	990	660	440	250	160
10,000	1,260	890	640	440	340
11,000	1,550	1,120	840	640	530
12,000	1,880	1,400	1,040	830	710
13,000	2,230	1,720	1,300	1,020	900
14,000	2,610	2,040	1,590	1,290	1,110
15,000	3,030	2,400	1,900	1,580	1,380
16,000	3,470	2,790	2,230	1,880	1,680
17,000	3,900	3,220	2,610	2,220	1,990
18,000	4,320	3,640	3,030	2,600	2,340
19,000	4,740	4,060	3,450	3,010	2,720
20,000	5,160	4,480	3,870	3,430	3,150
21,000	5,560	4,900	4,290	3,850	3,570
22,000	5,970	5,310	4,710	4,270	3,990
23,000	6,370	5,710	5,110	4,680	4,410
24,000	6,770	6,110	5,510	5,080	4,810
25,000	7,160	6,520	5,920	5,480	5,220

* Source: College Scholarship Service

** This table is revised as appropriate by the CSS to reflect changes in the economy.

One of the major questions confronting student assistance program officers today is that of how and in what proportions to distribute aid to students attending public institutions and those attending private (and usually more expensive) institutions. It is important in considering this issue to distinguish between state aid to students and aid to institutions. As pointed out by the North Carolina Legislative Study Commission, the two are not necessarily the same.[9] State assistance to an institution, public or private, which results in a corresponding decrease in charges to students is generally considered student aid. Conversely, aid to a student which is absorbed by increased charges is usually considered institutional aid. Our present concern is with the aid to students.

An interesting, and perhaps revealing observation is that, of the 312 million dollar payout in 1972-73 in the programs reported by Boyd in the recent NASSP survey, the distribution of aid to students attending public and private institutions was nearly equal. Students attending public institutions received 47 per cent of the dollar payout and students in private institutions received 54 per cent. Study of the reasons for this particular distribution might prove interesting.

The current thinking of many states on the question of assistance to students in public and private institutions centers around the goal of providing students and potential students with the greatest possible range of options for post-secondary education. Philosophically at least, a rationale appears to exist for providing students who attend private institutions with the financial assistance they need.

The consideration of more practical matters might lead to the same conclusion if the case presented by the Legislative Study Commission of North Carolina

is taken as representative.[10] That report suggests that any student aid program which reduces the tuition differentials between public and private institutions will help maintain the enrollment of private institutions. Such a policy would reduce the per student subsidy cost to the state. In fact, under a state-supported program of student financial aid, the state will realize a savings every time a student chooses to attend a private school so long as the total amount of financial aid he receives is less than the aid he would have received had he attended a public institution (explicit aid), plus the implicit scholarship (tutition subsidy) resulting from state appropriations to public institutions. The Commission also points out that to these operating savings might be added those capital savings which would result from sparing the state the cost of expanding its facilities to take care of increased enrollment in public institutions. This last argument is supported by Tennessee which established a broad program of tuition grants (among other reasons) to: "Save the State of Tennessee the costs of unnecessary expansion of tax-supported educational institutions by utilizing the resources of the State's private educational institutions..."

One fact that was evident in our review of the other states which will not prove surprising is that, without exception, states are faced with financial need. A number of states have conducted studies to determine the amount of student financial need within their boundaries. When these amounts are compared with available resources, the need figures are invariably greater.

It is appropriate to preface a discussion of closing the gap between available resources and need with a discussion of revenue sources for student assistance. When educational benefits (including veterans benefits, social security educational benefits, and vocational assistance) are grouped with other federal sources of student assistance, the federal government provides the largest share of funds in the states for which information is available. The second largest source

of funds varied from state to state, but most states reported that the state itself was the second largest source of funds. Institutional aid ranked third in more cases than not in those states surveyed.

One of the hopes of most states is that the new (Federal) BEOG program will eliminate much of the unmet need in their states. In fact, a recent study in Georgia noted that if the BEOG program is adequately funded, it could eliminate the entire unmet need in Georgia.[11]

Unfortunately, the BEOG programs impact for 1973-74 was minimal. Typical responses to Boyd's inquiry, "How did the new BEOG programs impact any decisions you made for the 1973-74 award year programs" in the NASSP survey were, "no impact," "no effect," and, "too late for 1973-74." Until the BEOG program can be fully implemented, states are attempting to stretch their limited resources. More "packaging" of awards and reorientation from awards based upon academic ranking with need as a secondary factor to awards based solely upon financial need is reported to have helped some states provide more opportunities in the face of limited resources.

North Carolina reported in a recent study that part of the financial aid problem in that state might be resolved by placing more of the currently-available resources into the "general" category of availability after modifying or removing restrictive conditions on all or part of the funds now defined as "limited" in degree of availability.[12] Also noted in the same report was the fact that any student assistance program based on criteria other than demonstrated need increases the total cost of the program.

Increasing state funds available for student loans was generally frowned upon by states as a solution to their current problems. In fact, there appears to be a general trend away from the use of student loans as a major source of

student assistance. A recent study in West Virginia points out that the basic disadvantage of undue reliance on a loan program is the fear of debt that will inhibit many students either from going to college at all, or from making the career choices best suited to their interests and aptitudes.[13] Balderston, in his statement to the California Legislature[14] points out that students from families with low income and little education are characteristically fearful of debt. He concludes that, "loan financing cannot fail to have a deterrent effect on college attendance."

The Commission on the Financing of Higher Education in Illinois in a recent report points out that repayment rates do not reflect the typical distribution of earning after college.[15] The borrower must repay the same amount the first year after graduation as he does in the tenth year. Although his income is lower at first, he is likely to be experiencing high costs in establishing a household.

Present programs offer no protection against the possibility of low or moderate income after graduation. This has two effects. First, it may discourage borrowers from entering certain professions because they typically provide lower earnings even though they are important to society. Second, it may discourage potential borrowers from low-income or minority groups who may have lower income expectations upon graduation, particularly if they plan to return to serve their communities upon graduation.

The Commission suggests several possible solutions. One relatively straightforward adjustment would be to lower the annual repayment burden by extending the maximum term of loans. Another idea is to have employers help repay the educational loans. Two other possibilities suggested by the Commission have already been implemented in a number of programs around the country. These are

loans with income contingent and graduated repayment schdules. These plans deal explicity with the problems of high-burden and low-income risk. One inhibiting factor to the expansion of loans featuring graduated or income-contingent repayment schedules is the fact that, under current law and regulations, such loans are not eligible for Federal guarantees under the F.I.S.L. Program or Federal 80% reinsurance for state guaranteed loans. Removal of this prohibition would almost certainly cause rapid expansion of programs with these features.

The general consensus of states regarding the use of loans to fill the gap between available resources and need seems to be that some form of loan/grant combination would prove superior to an over reliance on loans. West Virginia in its recent study concludes that, "the best financial aid plan seems to be one which offers both grant and loan opportunities to West Virginia students. Combined in proper proportions need-based grants, plus loan assistance, can broaden college-going opportunity at the most reasonable possible cost."[16]

A concern expressed by a number of states with regard to unmet financial need was the fact that its effect was to place an undue burden on families who wish to provide post-secondary educational opportunities for their children. As explained in a recent study in Georgia,[17] the situation has caused families to make financial sacrifices such as working at a second job; delaying the purchase of many, often badly needed, goods and services; expenditure of savings; and excessive borrowing against future retirement or life insurance benefits. This would seem to account for the manner in which unmet need is being filled by many states.

A recent study in North Carolina examined the operation of financial aid offices within the state and compared this with models in use in other states.[18] For comparison purposes, a survey of 15 other states by the Columbia University Bureau of Applied Social Research (BASR) was used.[19] The BASR survey identified

some specific strengths in the fifteen survey institutions and these are worth noting: 1) The large majority of undergraduate student aid programs were administered by the financial aid offices of the study institutions, the implication for North Carolina, as noted in the report, was that centralization or coordination of all financial aid responsibilities in one office under the direction of one individual is desirable, if not mandatory; 2) Eight of the survey institutions regularly adjust the computations prepared centrally by the College Scholarship Service. The North Carolina study found it desirable to "review carefully and modify appropriately the results of central need analysis conducted by any external agency which cannot accommodate unusual or atypical family financial situtions; 3) Fourteen of the survey institutions use "packaging" procedures with the majority of them combining two or more forms of aid in 70 percent or more of the cases. The North Carolina study concluded that "packaging" or combining two or more types of financial aid into one award helps to assure meeting all or almost all of a recipient's financial need, tends to expand the amount of institutional student aid resources, and provides the aid office with a capacity to assist an increased number of qualified candidates. 4) Aid directors at ten of the survey institutions devote full time to financial aid administrations. The conclusion of the North Carolina study was that a financial aid director spending any less than full time resulted in a program of significantly less effectiveness; 5) Inadequate staffing was one of the major problems at the survey institutions. An earlier study by Nelson[20] suggested that minimum staffing requirements for an effective program were one professional and one clerical worker per 1,000 students enrolled. The majority of observed weaknesses in the North Carolina program related directly to a failure to follow the guidelines implied by the strengths observed in other programs.

In the NASSP Survey, staffing patterns reported for the 49 programs surveyed indicated that 717 full time and 141 part time personnel were engaged in administration of a 1972-73 payout of $312 million in awards. Administrative budgets for the 49 programs total $11,860,141.

3.3 Summary

A brief summary of our review of the states can best be made by concentrating on the major trends we have observed. They are as follows:

1) The shift in awarding student aids is away from restricted funds and academically-related awards to a system of awards based primarily on financial need;

2) State revenues and appropriations are currently inadequate and, with the rising costs of education, will become increasingly inadequate in the future;

3) Extensive state programs of student aid exist mostly in the wealthier and more populous states.

4) Students are expected to pay a greater part of the cost of their post-secondary education than in the past and the trend is toward students assuming still greater proportions of the total cost;

5) To offset the increased post-secondary costs to students, more extensive aid programs will be required in the future.

IV. PROPOSED GOALS OF THE KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY

4.1 Introduction

Each state has the freedom to determine the basic goals and objectives for higher education which are most meaningful in the operation of its statewide student assistance programs. The development of model student assistance programs includes, either explicitly or implicitly, the embodiment of sets of objectives designed to achieve the goals specified. KHEAA has suggested that Educational Management Services propose a set of major and basic goals for the consideration of KHEAA in planning statewide assistance programs and to provide some of the criteria as useful background to the development of model student assistance programs (including operational objectives) for the Commonwealth.

4.2 Proposed Goals

The (Proposed) goals of the Kentucky Higher Education Assistance Authority are to:

- Equalize post-secondary educational opportunity by assisting in the removal of student financial barriers where financial need is determined.
- Conserve public resources by providing opportunities for financially needy students to utilize otherwise unused spaces at Kentucky post-secondary institutions.
- Preserve diversity in post-secondary education by permitting freedom of institutional choice.

- Seek funding sources which, combined with institutional, federal and family resources will allow post-secondary applicants to meet the costs of the institution of their choice.
- Permit flexibility in the delivery of any student assistance programs, or mixes of programs, so that a student's studies and career plans may be favorably affected.
- Assist the Commonwealth's public and private institutions by providing statewide information and services which maximize delivery of financial assistance program benefits.

V. IDENTIFICATION AND ASSESSMENT OF ALTERNATIVE MODEL STUDENT ASSISTANCE PROGRAMS

5.1 A Definition of Financial Need

Financial need, as most simply defined, is the monetary difference between the amount that the student and his family can be reasonably expected to contribute toward the costs of education and the total cost of attendance at the institution chosen by the student. Financial need is not poverty. It means that there exists a gap between the ability of the family to provide assistance and the necessary costs of the education. This gap is closed by the awarding of student financial aid.

5.2 Background on Student Assistance Programs

Financial aid, in general terms, falls into two broad categories: Student self help, and gift assistance. Student self help consists of employment to defray expenses and borrowing, which is mortgaging future employment. Gift assistance is that financial aid which is given with no commitment that the recipient provide stated services in return or repay the amount received. Scholarships are gift assistance to meet financial need where a major factor in the selection of recipients is based upon superior academic talent as measured by previous success in high school or predicted future success as measured by standarized achievement tests or a combination of both. The amount of the award, after selection by merit, is determined by the amount of demonstrated financial need. Grants in Aid are awarded solely on the ability to pay for education, generally starting with those students whose families can provide nothing. Such students usually must meet the normal criteria for admission as established

by the institution which they attend. Programs which are designed to meet financial need are defined as follows:

SELF-HELP PROGRAMS:

Employment - The Federal College Work-Study Program (CWSP). This program provides 80% of the payroll costs for eligible students who wish to earn all or a portion of their expenses by working at an approved agency.

State Work-Study. All states have the option of creating a program of this nature to supplement the Federal program or to meet different needs by establishing different criteria for eligibility.

Loan Programs - The National Direct Student Loan Program (NDSL). The federal government provides 90% of the capital to fund need based loans to students at 3% simple interest after graduation by means of this program. The institution must provide the other 10%.

The Federally Insured Student Loans Program (FISL). In this program the student obtains the loan from an approved lending institution and the federal government guarantees the repayment of the loan, both principal and interest. In addition, if the student does not borrow more than he is determined to need, the federal government will pay the interest while the student is enrolled; otherwise the student pays 7% interest, both while enrolled and after graduation.

GIFT ASSISTANCE PROGRAMS:

Scholarships - These are financial aid awards, generally based upon some index of demonstrated need and a measure of past or potential academic success. These awards are given by institutions, foundations, and in many instances, state agencies.

Grants-in-Aid - The Basic Educational Opportunity Grant Program (BEOG). This is an entitlement program conceived by the federal government to provide assistance to the students from the lower economic strata of the U.S. population. Awards are based upon a very stringent "needs analysis" system, to provide the "floor" for financial aid.

The Supplementary Educational Opportunity Grant Program (SEOG) (old E.O.G.). This program is designed to supplement the aid package after utilization of BEOG,NDSL,CWSP, etc., if there is remaining need.

State Grant Programs. These are state funded and administered programs of financial aid where selection is based upon the students' family income and assets vs. liabilities and their ability to provide funds for education. Usually those students whose parents can provide no help whatsoever are selected first and then, in ascending order of ability to pay, until available funds are exhausted.

All of these programs are functional mechanisms to transmit aid to needy students.

5.3 Functional Mechanisms to Transmit Statewide Student Aid

As further introduction to the development of alternative model student assistance programs, it is useful to describe briefly the functional mechanisms inherent in the development of statewide student aid programs. A total of ten different functional mechanisms are represented in discussing four alternative model student assistance programs in Section 5.4 which follows. These can be categorized in three major types of student assistance and/or services, as follows:

FUNCTIONAL MECHANISMS TO TRANSMIT DIRECT STUDENT AID

- State Scholarship Program
- State Tuition Grants Program
- State Grant-In-Aid
- State Incentive Grant Programs
- State Loan Program - General Fund Supported
- State Loan Program - Revenue Bond Supported
- State Work Study Program

FUNCTIONAL MECHANISM FOR STUDENT SERVICE

- Statewide Common Financial Aid Application

FUNCTIONAL MECHANISMS TO TRANSMIT INSTITUTIONAL AID

- State Contract Program - Enrolment - Based
- State Contract Program - Grant Recipient-Based

On the following page, each of these ten mechanisms is described, in tabular form, according to the following descriptors: program, type, eligible institutions, selection device(s), award amount, target population(s) and model alternative(s) to which it relates.

TABLE 5.3

FUNCTIONAL MECHANISMS TO TRANSMIT STATEWIDE STUDENT AID

PROGRAM	TYPE	ELIGIBLE INSTITUTIONS	SELECTION DEVICE(S)	AWARD AMOUNT	TARGET POPULATION(S)	SECTION 5.4 MODEL ALTERNATIVE(S)
DIRECT STUDENT AID:						
State Scholarship	Gift Assistance	Public & Private 2-4 year Non-Profit	High School Rank and Test Score	Half of Need to $1,000	Academically talented w/need	1, 2
State Tuition Grants	Gift Assistance	Private 2-4 year	Subject to definition by rules & regulations	Need to half of state tuition subsidy at state institutions	Students bound or inclined to attend private colleges	5, 6, 7
State Grant In Aid	Gift Assistance	Public & Private 2-4 year Non-profit	Parents' contribution starting with 0 and ascending	Half of need to $1,000	Academically able with high need	1, 2, 3, 4
State Incentive Grant	Gift Assistance	Public & Private 2-4 year Non-Profit	Parents' ability to pay	Subject to definition by rules & regul.	Less affluent segment	5, 6, 7
State Loan (General Fund Supported)	Self-Help	Public & Private 2-4 year Profit & non-profit if FISL eligible	Federal regulations & Higher Education Amendments of 1972	Up to $2,500 per year	Students attending eligible institutions per federal guidelines	5, 6, 7
State Loan (Revenue Bond Supported)	Self Help	Public & Private 2-4 year Profit & non-profit if FISL eligible	Federal regulations & Higher Education Amendments of 1972	Up to $2,500 per year	Students attending eligible instit. per fed. guidelines (in greater numbers)	1, 2, 3, 4
State Work Study	Self-Help	Public & Private 2-4 year Non-profit	Need, desire for employment & necessary job skills	Not exceeding need	Students eligible & who desire CWSP employment	1, 2, 3, 4, 6, 7
STUDENT SERVICE:						
Statewide Common Financial Aid Application	Student Service	At all institutions eligible for KHEAA Student Aid Programs	None	None	All students desiring post-secondary education	1, 2, 3, 4
INSTITUTIONAL AID:						
State Contract (Enrollment Based)	Supplemental Aid to Institution	Private 2-4 year Non Profit	Based upon increase in Kentucky students enrolled over base year (1973-74)	$500 per additional eligible student enrolled	Not applicable	2
State Contract (Grant Recipient Based)	Supplemental Aid to Institution	Private 2-4 year Non-profit	Students attending eligible institutions who receive Kentucky state grant	$500 per grant recipient enrolled	Not applicable	3, 4

5.4 Alternative Model Student Assistance Programs

This section includes seven alternative model student assistance programs for consideration by KHEAA. Four of these alternatives, with their advantages and disadvantages, are outlined in this section for the particular consideration of KHEAA. These models offer a more comprehensive student aid program than is possible under existing legislation, and they are increasingly access-oriented rather than freedom of choice-oriented. In addition, these models should avoid the constitutional issue by virtue of providing aid to students who can choose that institution which best suits their particular needs. No set amount of student aid funds are reserved to any particular group of institutions. Without reservation of funds, the private colleges in the Commonwealth should attract a large portion of the student aid funds, no less than 40% of the total. During 1972, the private two and four-year colleges in Minnesota, with 18% of the post-secondary enrollment, received 49.8% of the funds from the Minnesota State Scholarship and Grant Incentive Aid Program. All of the alternative models outlined below will require extensive modification of existing and proposed legislation as well as enactment of new legislation to create programs that were not previously proposed by KHEAA.

The orientation of student aid programs: freedom of choice of institutions or equal access to education is central to all student aid programs, and, in particular, to those operated by state agencies. The goal orientation of student aid programs seeks out some place on the continuum that runs from freedom of choice in institution to equal access to post-secondary education. The selection of functional mechanisms and the computational methods used

within each mechanism, as well as the interrelationship of these mechanisms, provides a clearer view of the goal orientation of the program in many instances than does the stated objective of the program.

Essentially, a freedom of choice program provides that, under all circumstances, a student who chooses a high cost education can obtain more aid than if he or she had chosen a lower cost institution. A more widely used device in a model of this nature is to limit the amount of the award to a sum not exceeded by a fixed limit, usually $1,000 or more, or tuition (whichever is the lesser) or the amount of remaining need if less than the maximum or the tuition costs. Under a model of this type, a student from a relatively affluent family can receive more assistance to attend a high cost institution than a student from the most impoverished background can receive to attend a low cost institution. It is useful to remember that the greatest differential in costs between high and low cost institutions is tuition, because room and board and book charges are quite similar at most institutions.

An equal access to education programs starts with the premise that it is more important that students from the lower economic strata receive help to attend a post-secondary educational institution, which will generally meet their educational requirements, than to induce them to seek out a higher cost education. Therefore, when assessing need for assistance, all students will have their need structured upon the costs of attending an institution which costs no more than the most costly public institution. In the event that the student exercises freedom of choice and attends a high cost institution, the amount of the award will not increase to reflect the higher cost of attendance. These are the opposite ends of the goal orientation continuum. Without the luxury of unlimited funds, a state must choose its goals rather carefully in

the light of knowledge that freedom of choice programs tend to favor students at high cost schools and equal access programs tend to favor students who customarily have a greater tendency to attend lower cost public institutions.

In the final analysis, most states with student aid programs have avoided either end of this continuum by choosing a goal somewhat equidistant between the two. Setting a funding limitation of one-half of need to a maximum of $1000-1200 per year enhances access. Using total cost of attendance in calculating need tends to a degree to enhance freedom of choice. A scholarship program selecting winners on the basis of academic ability promotes freedom of choice for the superior student who has a wide range of choices in institutions.

Conversely, a grant-in-aid program, with a $1,000 or one-half of need restriction tends toward an access orientation, because it selects the least affluent and proceeds to the most affluent. After consideration of the above illustrations, it is not surprising that many states have both a scholarship and a grant program in the effort to meet both types of needs.

The remaining portions of this section serve to outline seven alternative model student assistance programs, with particular attention being given to the first four alternatives.

5.4.1 Alternative One:

Create a comprehensive Kentucky State Student Aid Program composed of these functional mechanisms: a State Scholarship Program, a State Grant-in-Aid Program, an expanded Student Loan Program under the Federally Insured Student Loan Program with the Commonwealth as the lending agency and a state funded Work-Study Program. Under these programs, any student who meets the basic eligibility criteria and who plans to attend an eligible institution within the Commonwealth may apply for gift assistance and one or the other (or both) of the self-help programs. The State Scholarship Program would serve the needs of the academically talented student at any eligible institution located within the Commonwealth. Recipients would be selected on the basis of competitive ranking of academic potential, as measured by a combination of high school rank in class as of the end of the eleventh year and the statewide post-secondary bound norm score of the American College Testing Program Test Battery. Those applicants desiring to receive a monetary award would be required to file the financial needs analysis statement designated by the KHEAA. Funds would be expended in descending order of the selection score, which is the sum of the high school rank and test battery, to those demonstrating need until the available funds are exhausted. Awards would range from $100 minimum to a maximum of $1,000, or one-half of the need, whichever is the lesser. Candidates not wishing to file the financial statement could elect to receive non-monetary recognition only and retain eligibility to request monetary awards at the annual renewal period, provided that they could demonstrate financial need through the designated needs analysis procedure.

The State-Grant-in-Aid Program is intended to enhance the probability that the academically less talented and less affluent student will continue his or her education. Recipients would be selected on the basis of expected parental contributions as determined by the designated needs analysis service. Selection would commence with those students whose parents were expected to contribute nothing and continuing up the parental expectation curve until the available funds were exhausted. The award limitation would be a minimum of $100 to a maximum of $1,000 or one-half of need, whichever is the lesser. Recipients could attend any eligible institution within the Commonwealth provided they meet the normal admission requirements for their chosen institutions.

Those students who are not selected for a scholarship on the academic selectors would automatically receive consideration for a grant as application would be made on one form. In no instance would the student be awarded stipends from both programs. Those students who would become eligible for HEAP and V.O.P. funds at some time during their educational career could be given blanket eligibility for this program even though they would not enter the program as freshmen. The combining of these funds into one single program simplifies the administrative burden of KHEAA.

The Kentucky State Loan Program should be vastly expanded to accommodate the projected demand for this form of assistance. Authority to create $15,000,000 worth of tax exempt revenue bonds should be sought. When the state becomes a direct lender under the Federally Insured Student Loan Program, it will become the primary lender in a short time. All residents of Kentucky who attend any post-secondary institution that is eligible for F.I.S.L. may borrow from this program as well as students who are not residents of Kentucky but who are

attending F.I.S.L. eligible institutions within Kentucky. Residents of other states attending eligible schools in Kentucky would be required to provide certification that they could not obtain such loans through the State Loan Program of their state of residence where such state has a similar program in operation.

A one-time appropriation of $1,000,000 should be sought to cover start-up costs during the initial deficit period with the provision that such funds shall not cancel and shall be available to provide the base for a sinking fund to retire bonds so long as the program remains in operation.

The State Work Study Program would supplement the Federal College Work-Study Program to augment employment opportunities for Kentucky students in need of this assistance. Students would be required to meet the same eligibility criteria as apply to the Federal College Work Study Program. An appropriation of $830,000 should be sought to create an employment opportunity of $1,000,000, or 125% of the basic 80% matching fund. The $30,000 would be utilized to provide a three per cent administrative cost supplement to the institution which must bear the administrative burden of this program. Funds would be tentatively encumbered for each student and transmitted on a reimbursement request at the rate of 80% of payroll cost, plus the three per cent supplement. Institutions should be required to maintain their current level of expenditure of institutional funds for student employment. It should be emphasized that this program might be administered in various alternative ways and at various levels of statewide funding.

In addition, KHEAA would institute as a student service a common statewide application for initial year State Scholarship and Grant Award Programs for entering freshmen only. All eligible institutions, as a condition for participation in these programs, would be required to accept this application with supportive needs analysis documentation for purposes of determining eligibility for campus-based, federally-supported student assistance programs. KHEAA would copy the statewide application and send it to participating institutions. The cost per year would be in the $20,000 to $25,000 range and would include clerical assistance, copying and postage, which would allow six institutional choices per student (one for needs computation).

Essentially, this model is a comprehensive program which can be described as modified freedom of choice and modified access because it contains elements of both concepts. The comprehensiveness is enhanced by the utilization of one application form which serves for either scholarship or grant consideration and eliminates the possibility that the student would choose to compete in the wrong programs. When there is added the service concept of utilization of the same application form by entering freshmen for both KHEAA and institutionally-based student aid programs, a large step toward solution of the problem area of the lack of awareness of sources of aid is achieved. The student is not required to have knowledge of all the separate programs, because this application would provide the basic access to these programs. It should be noted that this common application could not be used for the state loan program because it would require the standard federal application format OE 1154 and OE 1260. Students could receive a complete package of financial aid from the state under this model. The student could receive gift assistance (scholarship or grant) and self-help assistance (loan and/or work-study) and the total amount available through the combination would permit the neediest of students to meet the educational costs

at virtually any institution in the Commonwealth without recourse to either federal or institutional student aid funds, if necessary.

Control of funds through centralized administration provides the necessary accountability for the use of public funds. In addition, the awarding of the funds to the student, who exercises freedom of choice, may help avoid the constitutional question. One problem area inherent in this model is the requirement of the collection of high school rank in class data and test scores, which can be done rather easily by the American College Testing Program. Adoption of this model requires both high school ranks and test scores for scholarship selection. All valedictorians do not automatically receive a scholarship under this system, though most of them would. Elimination of test scores in scholarship selection would preclude the possibility of moderating the effect of rank in class from small high schools, where percentile rank intervals are necessarily larger than they are in large high schools. The second problem is the increased administrative burden and its attendant costs which must be assumed by KHEAA. Distribution of funds between the public and private sectors would result in the private sector, with about 18% of the enrollment, assumed to attract about 60% of the scholarship funds, because of the type of student private colleges normally recruit (i.e., the academically able), and higher average awards due to higher costs. The private colleges should be projected to receive over 35% of the Grant-in-Aid Funds, because they also attract many able students who do not receive scholarships and yet are extremely needy. For example, see the expenditure report of the 1972 Minnesota State Scholarship and Grant-in-Aid Program which employs similar selection devices and has about the same ratio of Public-Private enrollment as does Kentucky. In 1972, the Minnesota private sector received 49.8% of the funds,

and the public sector 50.2%.

A summary of the features, advantages and disadvantages of Alternative One follows:

Features:

A. Create State Scholarship Program utilizing as a selection device combined high school rank in class and statewide post-secondary-bound norm score on the American College Testing Program Test Battery.

Fund one-half of need to maximum of $1,000 per academic year with no restriction on whether the student attends a public or private post-secondary institution.

B. Create a Kentucky Grant-in-Aid Program.* Select recipients in ascending order of family ability to provide funds for education, starting with students whose parental expectation is zero and ascending until funds are exhausted. Award one-half of need to a maximum of $1,000 per year, with no restriction on whether the student attends a public or private post-secondary institution. Students can receive a grant or scholarship. Add H.E.A.P. and V.O.P. funds to this request for common administration of funds.

* On December 19, 1973, the President signed an Appropriation Bill relating to State Incentive Grant Programs, at the level of $20 million, with $19 million as a principal sum and five per cent, or $1 million as a reserve. Best indications at this time are that Kentucky will receive, based on enrollments, 1.175% of the principal sum, or $223,250, if the Commonwealth can match federal funds on a one to one basis.

C. Exercise and/or establish authority to issue state tax-exempt revenue bonds in the amount of up to 7.5 million per year to create lending capital for an expanded F.I.S.L. Program with the state as a direct, and probably, primary lender. Request a one-time appropriation of one million dollars to cover start-up costs during initial deficit period with provision that such funds shall not cancel at the end of FY 1976. All residents of Kentucky at any school eligible for F.I.S.L. Loans shall be eligible under the program. Consideration may be given to assisting non-residents attending F.I.S.L. eligible Kentucky schools, public and private, (non-profit) provided they can show proof from their state of residence that such assistance cannot be provided.

D. Create State Work Study Program supplementary to the Federal C.W.S.P., to create an additional employment opportunity of $1,000,000 per year. Require that the institutions maintain their present level of expenditures for student employment. Students would be required to meet the same criteria for eligibility as they would if they were to be employed through the Federal College Work-Study Program. Administration of the student employment contracts and payrolls would be a responsibility of the participating educational institutions for which it would be reimbursed to help defray the costs of administration at the rate of three percent. Each institution would submit to KHEAA a request for reimbursement of payroll costs for the participating students, on a monthly or quarterly basis. A separate entry for each student listing would be required; total hours

employed, hourly wage, and total wages would be required on a form furnished by the KHEAA. Upon receipt, KHEAA would then reimburse the institution at the rate of 80% of payroll costs plus 3% for administrative costs. Such reimbursement could be made in the form of one check accompanied by a detailed voucher or, if desired, separate checks for each eligible student plus the administrative cost supplement to the institution.

E. Institute as a student service a common statewide application for initial year State Scholarship and Grant Award Programs for entering freshmen only. All eligible institutions, as a condition for participation in these programs, would be required to accept this application with supportive needs analysis documentation for purposes of determining eligibility for campus-based, federally-supported student assistance programs. KHEAA would copy statewide application and send to participating institutions. The cost per year would be in the $20,000 to $25,000 range and would include clerical assistance, copying and postage which would allow six institutional choices per student (one for needs computation).

ADVANTAGES:

A) This alternative creates a much more comprehensive student aid program open to students at approved institutions, public and private. The scholarship program meets the needs of the talented student, and the Grant-in-Aid program the needs of the less talented but financially needier student;

B) This alternative should successfully avoid the constitutional questions, because the aid is awarded to the student, who then exercises freedom of choice in selection of the institution;

C) The private colleges should be able to achieve roughly 50% of the funds allocated to both programs. (Probably, about 60% of scholarship funds and 40% of Grant funds);

D) This proposal creates a loan program which could adequately meet the needs of Kentucky students with a one-time appropriation of one-fifth required by appropriating all of the lending capital for a smaller program;

E) Along with the work-study program envisioned by expansion of these funds, Kentucky could fill any voids left by the federal aid programs being phased out;

F) This alternative requires centralized administration, which gives control, and accountability of expenditures as well as one place for students to seek assistance;

G) This proposal represents a "packaging concept" which is comprehensive in meeting individual needs of students;

H) Only one application for all pre-freshmen will minimize confusion. The statewide form could be sufficient for all institutional funding, including the channelling of Federal and Commonwealth funds. Institutions will know that the prospective freshman student has applied to the Commonwealth programs.

DISADVANTAGES:

A) This is a modified access model. Whether or not this is really a disadvantage is a matter of viewpoint.

B) The KHEAA would be required to accept much larger administrative responsibilities than under current and proposed legislation. This would more than double the need for agency support during the biennium.

C) This alternative will require collection of statewide post-secondary-bound test data and high school rank for scholarship selection. All valedictorians do not automatically win state scholarships under a system of this nature. Elimination of test scores would preclude the possibility of moderating effects of rank in high school class from small classes, where percentile rank intervals are necessarily larger between students, than in large high schools.

5.4.2 Alternative Two

This alternative is the same as Alternative One, with the addition of the Private College Enrollment Contract Program. This is an institutional aid program, not a student aid program. The purpose is to recompense the private institutions for increasing their enrollment of Kentucky residents, thereby relieving the Commonwealth of some of the pressure to invest increasing amount of tax dollars into construction of expanded public educational facilities. This would make use of the currently under-utilized facilities available in private institutions to provide for the educational needs of Kentucky residents. The Commonwealth would gain flexibility with the adoption of this program because it could lessen the possibility of being forced to construct excessive facilities in the public sector which would be utilized in the future when post-secondary enrollment begins its inevitable decline.

Operationally, this program would use the Fall, 1973 enrollment statistics for each eligible private college. In future years, for each Kentucky resident enrolled who represented a number in excess of the number of Kentucky residents enrolled during the base year, the college would receive $500. These grants could be made totally unrestricted, subject to the standard language prohibiting use of the funds for sectarian purposes, or, if desirable, restricted to use for student financial aid. The sum of $500,000 per year should be appropriated to fund this program, with the provision that the amount of the payment be reduced on a pro-rata basis in the event that the private colleges in Kentucky increase their enrollment of Kentucky residents by more than an average of 1,000 students per year.

This model is identical in all respects to Alternative One above except for the addition of the Private College Contract Program which should shift part of the burden of the increasing cost of construction of facilities from the taxpayer to the under-utilized private facilities at a lower net cost to the Commonwealth. The contract program in this model is essentially a contract for the delivery of services which must otherwise be purchased at greater cost by the Commonwealth.

A summary of the features, advantages and disadvantages of Alternative Two follows:

FEATURES:

This alternative is the same as Alternative One, with the addition of an enrollment-based contract program for the private colleges.

A. Using Fall, 1973 enrollment statistics, as a base year, create a program to pay to the private two-and four-year colleges the sum of $500 for each Kentucky resident who is in attendance at an eligible private school who represents a number enrolled in excess of the Kentucky residents enrolled in Fall, 1973.

B. These grants would be non-restrictive as to use by the institution.

C. Seek an appropriation of $500,000 per year with the provision that payments be reduced on a pro-rata basis in the event that private college enrollments of Kentucky residents increase by more than an average of 1,000 students per year.

D. Institute as a student service a common statewide application for initial year State Scholarship and Grant Award programs for entering freshmen only, using a KHEAA form. Seek agreement on the use of this application by all eligible institutions as a condition for participation in the program. KHEAA would copy statewide application and send to participating institutions. The cost per year would in the $20,000 to $25,000 range and would include clerical assistance, copying and postage, which would allow six institutional choices per student (one for needs computation).

ADVANTAGES AND DISADVANTAGES:

These are essentially identical to those for Alternative One, except for the addition of a private college grant program to encourage the use of existing private facilities by more Kentucky residents. A possible disadvantage may be a potential conflict particular to the Constitution of the Commonwealth, which might be avoided by considering this program in the realm of contracting for goods and/or services.

5.4.3 Alternative Three

This student aid model is more access-oriented than freedom of choice-oriented. Access is enhanced by removal of one of the functional mechanisms contained in the previous models, the scholarship program. The prime consideration is placed upon funding those students who come from the less affluent sector of society without reference to superior academic ability. Many of these same students will also exhibit superior academic talent, but this is not a factor in the selection process.

The State Grant-in-Aid Program would be expanded by combining the scholarship appropriation with the funds previously allocated to the grant programs. Selection of recipients would start with those whose expected parents' contribution is zero and then in ascending order of parents' contribution until this larger fund is exhausted. Awards would range from $100 to a maximum of $1,000 or one-half of need, whichever is the lesser. Total costs of education would still be considered in calculating need.

The Private College Contract Program would also be changed. Payments based upon increased enrollment of students would be eliminated and replaced by a contract payment of $500 per year for each Kentucky State Grant recipient who is enrolled at an eligible private college. This contract would be to provide for extra support services, counseling, tutorial services and remedial classes which might have to be created to ameliorate the problems of some of the grant recipients that would enroll at the private institutions. A contract of this nature would encourage the private college to become somewhat more flexible in the admission

of Kentucky residents, knowing that there was state financial support to augment any additional need for student services generated by this flexibility. An appropriation of $1 million per year to fund this program should be sought. Language providing for a pro-rata reduction if the number of eligible students exceeds 2,000 should be indicated in the legislation. The Kentucky State Loan Program, the State Work Study Program and the Student Service mechanisms in Alternatives One and Two would be included in this alternative.

While this student aid model is more access-oriented than its predecessors it does retain elements of the modified freedom of choice concept. Because the total costs of education will be considered in assessing need, the student whose expected parental contribution is greater than zero and who would thus qualify for a smaller award at a public institution, could get the maximum award by switching to a higher cost institution, if this alternative were adopted.

The administration of this program would be less complex because there is one selection base for recipients, i.e., parents' contribution, rather than two. Also, the requirements that high school class rank and test scores be collected is eliminated. A potential disadvantage is that the private college would receive about 7-11% less funding through the Grant-in-Aid program than would be the case where both the scholarship and Grant-in-Aid programs operated in conjunction. While there would be a smaller number of awards, the average award would increase because there would be movement of the award average toward the maximum. However, the influence of the changed Private College Contract Program should be helpful to the private college. In any event, even with a decline in enrollment, the private colleges will enroll a substantial number of Grant-in-Aid recipients for which they will receive $500 per year per grant recipient. As

the program renews previous winners who continue their education and funds a new class of freshmen each year, the private colleges will increase their number of contract grant-in-aid students at a much faster rate than they could hope to do by increasing the enrollment of Kentucky residents. The best projection would be a total increase of 12-15% in state funds compared to Alternative Two. The foregoing dollar amounts and percentages are based on experience in other states administering similar programs.

A summary of the features, advantages and disadvantages of Alternative Three follows:

FEATURES:

This alternative is essentially the same as Alternative Two, with the following exceptions:

A. The Scholarship Program which replaced the Tuition Grant Program would be eliminated;

B. A much larger Grant-in-Aid Program would be created by combining the budget requests for scholarships and grants into a single program;

C. The Private College Contract Program would be changed to provide for a payment of $500 per year for each Kentucky State Grant recipient in attendance at an eligible private college in Kentucky. An appropriation at the level of one million dollars per year would be sought, with rateable reduction language, should the number of eligible recipients exceed 2,000 in any given year.

D. Institute as a student service a common statewide application for initial year State Scholarship and Grant Award Program for entering freshmen only, using KHEAA form. Seek agreement on the use of this application by all eligible institutions as a condition for participation in the program.

KHEAA would copy statewide application and send to participating institutions. The cost per year would be in the $20,000 to $25,000 range and would include clerical assistance, copying and postage, which would allow six institutional choices per student (one for needs computation).

ADVANTAGES AND DISADVANTAGES

These are quite similar to those in Alternative Models One and Two, except:

A. This alternative will not require collection of statewide post-secondary bound test data and high school rank for scholarship selection;

B. This alternative provides for much easier administration than Alternatives One and Two. There is only one selection base for students, which would be parents' contribution. This would require use, centrally, of College Scholarship Service or American College Testing Program, but not both because their expectation curves are too far apart;

C. The private colleges would probably get 5% to 7% less in student aid funds under Alternative Three than under Alternatives One or Two.

D. The private colleges, under the contract for grant recipients, would be most likely to get much more under this contract and in total would increase their funding by 12-15% over Alternative Two. It should be remembered that many very bright students are also needy, and selection in this type of program tends to cut across differential levels of academic ability. It should be noted that the percentages quoted in this section are based on experience in other states administering similar types of programs.

5.4.4 Alternative Four

This alternative has most of the functional mechanisms common to the preceding models and in this respect is identical to Alternative Three. The change is in the methods of assessment of need. No state is currently operating this type of pure or total access model. The funding could be identical to that found in Model Three. In operating this program, the maximum cost structure used in calculating a student's need would be the total cost of attendance at the highest cost public institution. Any costs at the high cost institution which exceed the costs at the most costly public institution would not be considered in the assessment of need. Thus, a student, if given an award at a level based upon assessed need for assistance at the University of Louisville would take that amount to a higher cost institution, but the award would not be increased, if less than the maximum, to reflect any increased educational costs. Conversely, the same student who shifted to a less costly institution would have the award reduced, based upon a re-calculation of needs, considering the lower costs at the less expensive institution. Awards would range from $100 to $1,000 or one-half of need, whichever is the lesser. The mechanisms of state lending, state work study, student service and private college contract would be identical to those described in Alternative Three. Adoption of this alternative creates a comprehensive student assistance program, the primary goal orientation of which is the enhancement of access to post-secondary education. By funding at one-half need to a maximum of $1,000 per year, selection by ability to provide funds for education starting with those who can provide nothing and ascending the economic ladder and restricting costs used in calculation of need, the access concept is promoted. The average award amount will drop from a projected $630 per year in Alternatives One through

Three to a projected average of about $550, permitting the funding of a greater number of students. While this model will not prevent students from opting to attend high cost institutions, it provides little or no financial inducement to select that option. In this respect, this model does not deal with the needs of upper-middle-class students who want to attend high cost institutions. However, these same institutions may have institutional and federal funds of their own which could be used to assist this group of students if the Commonwealth provided funds for the most needy, reducing the portion of the aid package which the high cost institution has had to bear out of its own resources for the high need student enrolled. The dollar amounts quoted in this section reflect experience in other states with similar types of programs.

A summary of the features, advantages and disadvantages of Alternative Four follows:

FEATURES:

This alternative has many of the common concepts contained in Alternatives One, Two and Three, with the following addition. (No state is currently operating this type of access model.)

A. Create a Kentucky State Grant Program which would function in lieu of the Tuition Grant Program, State Student Incentive Grant Program, H.E.A.P. and V.O.P. Place all appropriated funds for these programs into this program as well as any funds acquired through funding of the Federal State Incentive Grants. In operating this program, the maximum cost structure used in calculating need would be the total costs of attendance at the highest cost public institution. Any costs at private institutions which exceed the costs at the most costly public institutions would not be considered in assessing need. Thus, a student, if given an award at a level based upon need at the University of Louisville could take that amount to a higher cost institution, but the award would not be increased to reflect any

increased educational costs. Conversely, the same student who shifted to a less costly institution would have the award reduced based upon a re-calculation of costs at the less expensive institution.

B. Create a major state funding program under the F.I.S.L. Pro ram financed by the sale of tax-exempt revenue bonds at the level of $15,000,000 for the 1974-75 biennium. This would provide help to 6,500 to 7,000 students annually.

C. Create a state-funded work-study program which would be administrated by the institutions under the same guidelines as the federal C.W.S.P. Program. Request appropriation to the fund at $830,000 per year to provide a $1,000,000 work opportunity. Tentatively encumber a specified amount of funding for each institution on a pro-rata basis according to enrollment and projected student needs. The amount of employment opportunity provided would be equal to 125% of the amount encumbered. Students would be required to meet the same criteria for eligibility as they would if they were to be employed through the Federal College Work-Study Program. Administration of the student employment contracts and payrolls would be a responsibility of the participating educational institution for which it would be reimbursed to help defray the costs of administration at the rate of three per cent. Each institution would submit to KHEAA a request for reimbursement of payroll costs for the participating students, on a monthly or quarterly basis. A separate entry for each student listing would be required: total hours employed, hourly wage, and total wages would be required on a form furnished by the KHEAA. Upon receipt, KHEAA would then reimburse the institution at the rate of 80% of payroll costs plus 3% for administrative costs.

Such reimbursement could be made in the form of one check accompanied by a detailed voucher or, if desired, separate checks for each eligible student plus the administrative cost supplement to the institution.

D. Create a Private College Contract Program to pay the private institutions the sum of $500 per full-time enrolled grant winner. This would reimburse the institution for any extraordinary costs of tutorial programs and any special counseling required by such grant recipients.

E. Institute as a student service a common statewide application for initial year State Scholarship and Grant Award Programs for entering freshmen only. All eligible institutions as a condition for participation in these programs would be required to accept this application with supportive needs analysis documentation for purposes of determining eligibility for campus-based, federally-supported student assistance programs. KHEAA would copy statewide application and send to participating institutions. The cost per year would be in the $20,000 to $25,000 range and would include clerical assistance, copying and postage, which would allow six institutional choices per student (one for needs computation).

ADVANTAGES:

A) This alternative creates a comprehensive aid program to enhance access to post-secondary education. By funding one-half of need to a maximum of $1,000 per year, and by selecting those with least ability to pay for education, access is enhanced.

B) The use of the common application greatly reduces the problem of student lack of awareness of the different programs; one application will provide entry to all programs, lessening the need for massive publicity campaigns directed to students, parents, and counselors, regarding all of the separate programs. Only one application is needed.

C) This alternative would permit total aid packaging by the state, if necessary, in the future, due to federal student aid declining in both amounts and coverage.

DISADVANTAGES:

This model does not speak of the needs of the upper middle income students wishing to attend high cost institutions. On the other hand, these institutions may have aid funds of their own to assist their students.

5.4.5 Alternative Five

Alternative Five consists of the continuation of the status quo, i.e., the adoption of currently operating and proposed student aid programs by KHEAA. The introduction of the Tuition Grant and Student Incentive programs marks a major step in the area of state acceptance of a portion of the responsibility for meeting student educational expenses. This is a major decision for the Commonwealth.

Upon reviewing the legislation, enacted and proposed, which provides the foundation of these programs, certain operational problems emerge which must be addressed. The Tuition Grant Program will require extensive rules and regulations supplementing the legislation to permit administration of the program. An appropriation of $1,000,000 per year would provide tuition grants in varying amounts up to the maximum for about 1750-1800 students, which is about 11% of those enrolled in Kentucky private colleges during 1973. It is a safe assumption that over 75% of those enrolled would be able to demonstrate need at some level. Therefore, what criteria are to be used in selecting the approximately one out of seven who would be eligible?

There appears to be no provision for centralized administration of the funds nor machinery to provide accountability for the use of public funds. According to the legislation, it is assumed that the individual private institutions would select the recipients and determine the amount of awards. What is to prevent selection of a number of recipients at levels which, when summed, exceed the appropriation? Are all awards then reduced on a pro-rata basis so that the appropriation is not exceeded by the awards? These must be delineated in either the Legislative Act or in the Rules and Regulations that supplement the Act. Reconsideration of the problems

involved may lead to the conclusion that centralized administration, using a single needs analysis system, is essential. Only through centralized control can any form of equity in selection of recipients be achieved. Only by centralized administration can accountability be maintained, and reliable statistics for presentation to the General Assembly in future biennia, be generated. As the ultimate responsibility for the program will fall upon KHEAA, it must also control administration so that proper accountability can be maintained.

The State Incentive Grant Program will also require re-casting of the legislation or supplementation through administrative Rules and Regulations to provide for centralized administration of the fund. A number of problem areas can be defined:

- The $200 limitation on potential contributions should be deleted; it is not desirable to freeze any set limit into legislation because costs are escalating too rapidly and needs analysis models change annually, rendering a fixed limit obsolete very quickly.

- The language requiring virtual certification that the student is unable to obtain sufficient aid from all other sources prior to receiving a State Grant should be deleted. Statements of this nature, if used as the actual operative procedure, are extremely difficult to administer properly and would virtually require the KHEAA to operate the program as a subsidiary of the institutional aid programs, delaying any awarding process until very late in the cycle and almost guaranteeing that the program would have minimal impact. Conversely, after operations are underway, it would not be

surprising to learn that the institutions in the initial award phases would simply underfund applicants by the amount of the projected State Grant, and routinely provide blanket certification of insufficient funds.

- The following questions need solution. As the tuition grants are received for students attending private institutions, and the Student Incentive Grant is open to students attending either a public or private institution, may an individual student apply for both programs? May an individual student receive funding from both programs if application to both programs is permissible?

It is suggested that strong consideration be given to centralized control, using one needs analysis system, and that awards made by KHEAA from this program be computed and sent to the student without reference to what the institutional financial aid office can or cannot provide, with the stipulation in its aid award so that the student aid from all sources, including KHEAA, does not exceed demonstrated need.

The Student Loan Program is very sound except that it is funded at too low a level. The proposed funding would have good prospects of successfully supplementing the efforts of the commercial lending institutions, assuming that such lending institutions maintained the level of investment of the year 1972. All indications lead to the conclusion that commercial lending institutions are sharply reducing their investment during 1973, and are projected to continue this reduction during 1974 and beyond. There

are no solid reasons to assume at this time that the Student Loan Marketing Association, "Sallie Mae", will achieve a turn-around in this trend, because there is no drastic shortage of lending capital, but only more profitable investments than student loans.

Therefore, in consideration of the above factors, it is suggested that the funding of the loan program be increased from $1,000,000 per year from appropriations, to 7.5 million per year using tax-exempt revenue bonds as a means to raise lending capital. To achieve this end, a one-time appropriation of $1 million should be sought to cover the start-up costs and intitia deficits in cash flow. This fund should be used over a three-year period and the remaining funds in this amount should not cancel at the end of the biennium. The Commonwealth, when it embarks upon a student loan program as a direct lender, can expect to become the primary lender rather quickly. Banks that now participate to please their customers, or to provide a public service, can be reasonably expected to refer a major portion of their requests for loans to the State loan program. Insufficient capital to meet the natural expectation of the potential borrowers can create major political repercussions because the people feel that they have the right to demand service by the government, a demand that generally does not even occur to them to make of a non-governmental establishment.

The creation of these programs is a major step in the right direction, and represents absolute benefits to the Kentucky student. However, these programs are compartmentalized, and are not comprehensive in nature. As

enacted, the tuition grant program will fund residual need, and thus tend to favor the student from the upper-middle income strata. The student incentive grant appears to have the ability to pay as the prime criteria for recipients. Therefore, separate administrative procedures would be required for the two programs, assuming that centralized control is created. In addition, there is separate administration of H.E.A.P. and V.O.P. funds which can be costly, when compared to the number of students served.

5.4.6 Alternative Six

This model is quite similar to Alternative Five but adds two functional mechanisms to the model. As recast, this model would incorporate the State Tuition Grant Program with awards up to one-half of the annual average cost of instruction subsidy at the public institutions, or financial need, if less than this amount. The awards are restricted to private colleges. There is no change in this mechanism.

The State Student Incentive Grant remains unchanged except for the placing of H.E.A.P. and V.O.P. funds into this program to simplify administration of these funds; students who would be clients of H.E.A.P. and V.O.P. would receive blanket or patent eligibility for these funds. The State Loan Program, as discussed in Alternative Five above, is funded at too low a level to provide significant impact upon the student needs in this area. The State Work Study Program is the major difference between Alternative Five and Alternative Six. This contributes a new mechanism of student assistance which current legislation has lacked. An appropriation of $830,000 should be sought to provide a $1,000,000 employment opportunity for students who

both want to work and can demonstrate the need for employment. The $800,000 would provide the 80% state matching fund to meet payroll costs and the $30,000 would permit a three percent administration cost supplement to the institution to help defray the cost of administering this program. Funds would be transmitted to the institutions by means of a claim for reimbursement of payroll costs. Each participating institution would be given a letter of transmittal, specifying the maximum aount which they could expect for a reimbursement under this program. In essence, the only significant difference between Alternatives Five and Six is in the introduction of the Work-Study Program. Other than this, Alternative Six is also compartmentalized and difficult to administer.

5.4.7 Alternative Seven

This alternative model is identical to Alternative Six with one exception in that it restricts the use of State Student Incentive Grant Program funds to public institutions. This will tend to create a more co-equal division of funds between the public and private sectors. The model is still compartmentalized and thus not comprehensive. It provides no significant advantages over Alternative Six.

The Tuition Grant Program would remain unchanged as would the State Student Incentive Grant Program but would only change in the restriction of funds to students attending public institutions. It could only sharpen a possible division between the public and private sectors, which does nothing toward making the program more comprehensive in nature.

The State Loan Program will help an estimated 700 or so students. In light of the reluctance of the private lenders to maintain the F.I.S.L. Program, this mechanism is inadequate when compared to the number of students who need these loans. The State Work Study Program is a viable mechanism because it could create a significant addition to the student aid potential in Kentucky. There are no significant advantages or disadvantages between Alternatives Six and Seven.

VI. DEVELOPMENT AND DOCUMENTATION OF ALTERNATIVE STRATEGIES

6.1 State Funding of Student Assistance Programs

It is not economically feasible for a state to duplicate all federal programs which provide student assistance based upon financial need. Traditionally, most states with comprehensive student aid programs initiated a scholarship or tuition grant program, added a grant program and some also created loan programs. Recent trends seem to indicate that scholarship programs and tuition grant programs are being left with static funding levels, or are being phased out entirely in favor of Grant-in-Aid Programs.

At this time, there is much discussion, but little discernible action, in the area of state-funded work-study programs. Minnesota enacted legislation to this effect in 1973, but the program was allocated no separate funding and thus operates at essentially an ineffectual level. The concept is exciting when viewed in conjunction with the State Grant and Loan Programs, and flexibility is created to permit states to counter the effects of the phasing out of the Federal Programs as well as having the ability, if necessary, to provide a total package of aid to a student without reference to the institutional financial aid office or the availability of federal student aid dollars.

Desirable levels of funding for a statewide comprehensive student assistance program in the Commonwealth of Kentucky in the next eight fiscal years would be as follows:

TABLE 6.1
STATE FUNDING OF STUDENT ASSISTANCE PROGRAMS

FISCAL YEARS 1975-78

Source of Funding	Fiscal Year 1975	Fiscal Year 1976	Fiscal Year 1977	Fiscal Year 1978
State Gift Assistance Program	$ 2,000,000	$ 4,000,000	$ 6,000,000	$ 8,000,000
Plus H.E.A.P. and V.O.P	$ 152,625	$ 152,625	$ 152,625	$ 152,625
Sub-Total	$ 2,152,625	$ 4,152,625	$ 6,152,625	$ 8,152,625
Plus (Projected) Federal Incentive Grants Funding	$ 200,000	$ 300,000	$ 400,000	$ 500,000
Sub-Total	$ 2,352,625	$ 4,452,625	$ 6,552,625	$ 8,652,625
Work Study	$ 830,000	$ 830,000	$ 830,000	$ 830,000
State Loan ($15,000,000 Bonding)	$ 1,000,000	-	-	-
Total	$ 4,182,625	$ 5,282,625	$ 7,382,625	$ 9,482,625
Total from Commonwealth:	$3,982,625	$ 4,982,625	$ 6,982,625	$ 8,982,625

FISCAL YEARS 1979-82

Source of Funding	Fiscal Year 1979	Fiscal Year 1980	Fiscal Year 1981	Fiscal Year 1982
State Gift Assistance Program	$ 8,000,000	$ 8,000,000	$ 8,000,000	$ 8,000,000
Plus H.E.A.P and V.O.P.	$ 152,625	$ 152,625	$ 152,625	$ 152,625
Sub-Total	$ 8,152,625	$ 8,152,625	$ 8,152,625	$ 8,152,625
Plus (Projected) Federal Incentive Grants Funding	$ 500,000	$ 500,000	$ 500,000	$ 500,000
Sub-Total	$ 8,652,625	$ 8,652,625	$ 8,652,625	$ 8,652,625
Work Study	$ 830,000	$ 830,000	$ 830,000	$ 830,000
State Loan ($15,000,000 Bonding)	-	-	-	-
Total	$ 9,482,625	$ 9,482,625	$ 9,482,625	$ 9,482,625
Total from Commonwealth:	$ 8,982,625	$ 8,982,625	$ 8,982,625	$ 8,982,625

6.2 Potential Students to be Served and Per Capita Costs

The foregoing projective data can be utilized to determine the potential number of students to be served annually by means of the State Gift Assistance and Loan Programs. Assuming an average award of $630,* the following numbers of students will be served by the State Gift Assistance Programs during the next eight fiscal years according to these data:

Fiscal Year	Potential Number of Students
1975	3,734
1976	7,068
1977	10,401
1978	13,734
1979	13,734
1980	13,734
1981	13,734
1982	13,734

The potential number of students to be served by a State Loan Program, (with bonding authority of $15,000,000 per biennium or $7,500,000 bonding authority per year) and assuming an average loan of $1,100* will be 6,818 students.

The Kentucky per capita costs for the State Gift Assistance Program (based upon a population of 3,282,000 for the Commonwealth in 1970 and a population of 3,610,200 in 1980) would be as follows for each of the eight future fiscal years:

Fiscal Year	Per Capita Costs
1975	$ 0.66
1976	$ 1.26
1977	$ 1.87
1978	$ 2.48
1979	$ 2.48
1980	$ 2.26
1981	$ 2.26
1982	$ 2.26

* This assumes that Alternative 1-4 is selected. Average award under status quo system cannot be determined prior to some experience or more definite administrative guidelines and knowledge of the computational mechanisms. The dollar amounts quoted reflect the Kentucky and National averages for awards in these programs.

Likewise, total per capita costs to the Commonwealth during the next eight fiscal years, including the State Gift Assistance Program (with H.E.A.P. and V.O.P. included), Work Study and State Loan Program would be:

Fiscal Year	Per Capita Costs
1975	$ 1.21
1976	$ 1.52
1977	$ 2.13
1978	$ 2.74
1979	$ 2.74
1980	$ 2.49
1981	$ 2.49
1982	$ 2.49

VII. SUMMARY AND RECOMMENDATIONS

The first four alternative models, developed in Section V, use various combinations of the functional mechanisms for transmittal of student financial aid to achieve different goals. All four of these alternatives represent viable and comprehensive model student assistance programs for consideration by the KHEAA. It is the feeling of the study staff that any one of these alternatives would provide a comprehensive State Student Aid Program which would meet the needs of the students of the Commonwealth of Kentucky.

These models are arranged in order from modified freedom of choice/modified access, (Alternative One)through graduations of change (Alternatives Two and Three which also introduce institutional assistance) to a pure or total access to post-secondary education model (Alternative Four).

While all of these models will provide the structure to transmit student aids and achieve different goals in the process, it is the considered opinion of the study staff that Alternative Three be given very strong consideration. It is more access than freedom of choice orientated; yet it posits significant advantages for the private sector. In addition, Alternative Three provides for easier administration within KHEAA. A common student selection base is established and the funds can cycle through the system faster because program changes from grant to scholarship are eliminated. To eliminate these changes from the first would require sequential running, first clearing up scholarship candidatesby firmly placing those awards, and then awarding grants.

It is assumed that Kentucky will not be able to appropriate the vast sums of money more populous states are able to expend. Therefore, as the need

requirements of qualified applicants will exceed available funds, the Models must operate on a competitive basis. There will have to be firm application deadlines for students to receive consideration for awards. Adoption of the concept of a "universal" application form where copies of the KHEAA application would be the aid application for aid at institutions, in lieu of the institutional forms, will solve problems stated in previous studies. Lack of knowledge about the various types of aid available to students would be overcome as one application form would assure consideration for all types of assistance. No state program currently offers this service to its residents even though the cost is modest.

APPENDICES PAGE

A. References.....101

B. Tasks and Activities of Phase V.....103

C. Request for Student Assistance Information from other States.....106

D. Proposed Legislation for Student Assistance Programs.....107

E. Operational and Cash Flow Analyses for KHEAA Direct Lending Program.....114

F. Student Financial Needs Analysis Systems.....121

G. Computational Model Simulations.....125

APPENDIX A
REFERENCES

1. Joseph D. Boyd, 1973-74 Undergraduate Comprehensive State Scholarship/Grant Programs, (National Association of State Scholarship Programs, October, 1973)

2. Joseph D. Boyd, An Examination of State Efforts in Removing Financial Barriers to Post Secondary Education, (Illinois State Scholarship Commission,1969, pp.28)

3. North Carolina Legislative Study Commission, Preliminary Report of the North Carolina Legislative Study Committee on Student Financial Aid, (North Carolina Board of Higher Education, 1970, pp.42)

4. Ibid, pp. 42

5. Ibid, pp.29-32

6. Indiana Scholarship Commission, Report of the State Scholarship Commission of Indiana with Recommendations to the Governor of Indiana (September, 1970, pp.7)

7. Ibid, pp.5

8. Ibid, pp.5

9. Op Cit, North Carolina Legislative Study Commission, pp. 6

10. Ibid, pp.20-21

11. College Entrance Examination Board, Illustrations of Financial Aid Models for Georgia, 1972, pp. xiv.

12. Op Cit, North Carolina Legislative Study Commission.

13. West Virginia Board of Regents, A Study of the Financial Needs of West Virginia College Students, (1971, pp. 27)

14. F. E. Balderston, Statement to the Joint Committee on the Master Plan for Higher Education of the California Legislature, (Amil,1972, pp. 17-18)

15. Illinois Commission on the Financing of Higher Education, A Report to the Board of Higher Education, State of Illinois, (March, 1972. pp. 0-6 - 0-8)

16. Op Cit, West Virginia Board of Regents, pp. 28

17. College Entrance Examination Board. Available Financial Aid, Financial Need, and Unmet Needs in Georgia, (August-September, 1972, pp. 66)

18. College Entrance Examination Board, An Analysis of Financial Aid Programs, Operations, and Resources in the Fifteen Senior Tax-Supported Institutions in North Carolina, (July, 1968)

19. Nash, George, with the collaboration of Lazarsfeld, Paul F. New Administrator on Campus: A Study of the Director of Student Financial Aid. A Study for the College Entrance Examination Board. New York: Columbia University Bureau of Applied Social Research,(1968).

20. Nelson, James E. Student Financial Aid Administration, Requirements, and Resources at the University of California. Western Regional Office: College Entrance Examination Board, 1967, pp. 124-25.

21. Op Cit, North Carolina Legislative Study Commission.

22. Kentucky Higher Education Assistance Authority and Southern Regional Office, College Entrance Examination Board, A Post-Secondary Student Financial Aid Attitudinal Survey,May, 1973

23. Kentucky Higher Education Assistance Authority and the American College Testing Program, Inc., Socioeconomic Influences on the Educational and Career Paths of Kentucky High School Seniors, September, 1973

24. Kentucky Higher Education Assistance Authority and Southern Regional Office, College Entrance Examination Board, A Survey of Student Financial Aid Resources In Kentucky, July 1973.

25. Kentucky Higher Education Assistance Authority and Southern Regional Office, College Entrance Examination Board, An Analysis of the Aggregate Financial Needs of Kentucky Post-Secondary Students, September, 1973.

APPENDIX B

TASKS AND ACTIVITIES OF PHASE V

The specific tasks and activities to accomplish Phase V of a research program on post-secondary student financial needs and resources in Kentucky have been outlined in three sub-phases as follows:

SUB-PHASE 5.1: REVIEW AND SUMMARIZE

5.1.1: Review and summarize the findings of Phases I-IV of the study on post-secondary student financial needs and resources in Kentucky, relative to alternative model student assistance programs for the Commonwealth.

5.1.2: Review existing student assistance plans in other states and analyze in terms of applicability for needs in Kentucky.

SUB-PHASE 5.2 IDENTIFY AND ASSESS ALTERNATIVE MODELS

5.2.1: Identify the range of alternative student assistance program models. Include, as a minimum, loan, grant, scholarship, work-study, and tuition grant plans, including the existing tuition grants program and the proposed KHEAA student loan program. (Additional considerations may include loan programs, such as a state financed Federally insured student loan, utilizing fixed, graduated repayment schedules and programs which will provide for cancellation or deferment of all or part of repayment. Further, consider methods for loan-financing, embracing such options as revenue bond financing, investment pools, the impact of the Student Loan Marketing Association, a revolving fund income flow analysis (Based on FISL provisions), and any other feasible alternatives. Also included in consideration will be existing student assistance programs administered by the U. S. Office of Education, the Social Security Administration, The Public Health Service, the National Science Foundation, and the Veterans Administration.)

5.2.2: Establish criteria for the selection of feasible alternative models, the criteria to be based upon the findings of Phases I-IV of the Study.

5.2.3: Assess the alternative model student assistance programs and mixes of programs on the basis of established criteria and establish priority for implementing programs. Include plans for time-phased as well as immediate implementation.

(The plan for evaluation of alternative student assistance program models will form an integral part of this phase of the study. The evaluation plan will consist of the following components with respect to each alternative model:

1) Design-Goals and Objectives
2) Contextual Analysis
3) Review of function
4) Review of data and information systems
5) Review of financing and fiscal procedures
6) Review of internal evaluation
7) Review of internal documentation and,
8) Review of impact on enrollment and financial structures on the various institutional sectors.

The evaluation plan is designed to examine each of the above areas systematically and to determine (a) the extent to which objectives can be accomplished; (b) factors which may either enable or preclude the accomplishment of these objectives; and (c) identification and inclusion of effective aspects of the model into implementation programs.)

SUB-PHASE 5.3: DEVELOP AND DOCUMENT ALTERNATIVE STRATEGIES

5.3.1 Develop alternative student assistance system strategies, including the analysis of necessary structures, personnel, costs as well as the content and scope of attendant legislation necessary for the implementation of each alternative model or mix. Essential elements will include administrative procedures,

program guidelines, and funding levels/methods.

5.3.2 Document the advantages and disadvantages of each alternative model, taking into consideration such items as the following:

- Occupational aspirations of secondary students:
- Available resources;
- Public attitudes regarding student assistance programs;
- Costs of each option and the distribution of costs for administrative overhead and delivery of services;
- Institutional-level adaptations necessary for implementation of each option;
- The scope and content of legislation to implement each option;
- Projection of short - (1-2 year), intermediate - (2-4), and long-range (8-10 year) costs for each option, based upon projected enrollment patterns.

5.3.3 Prepare and submit a final report to the KHEAA which includes the above components.

APPENDIX C

Request for Student Assistance Information from other States

COMMONWEALTH OF KENTUCKY
HIGHER EDUCATION ASSISTANCE AUTHORITY
CAPITAL PLAZA OFFICE TOWER
FRANKFORT, KENTUCKY 40601

P. BORDEN
IVE SECRETARY

AREA CODE 502
564-3553

October 18, 1972

The Higher Education Assistance Authority is planning a research program to determine the size and type student assistance programs needed to remove economic barriers to post-secondary education for Kentucky residents. An important preliminary task is the compilation of information on existing state supported programs. I am therefore writing to request copies of:

1. Research documents substantiating your state's need for existing new or expanded student assistance programs;

2. Legislation pertaining to the establishment and operation of existing student assistance programs;

3. Administrative regulations, policies and procedures relating to needs analysis, recipient selection, notification and distribution of awards; and,

4. Application forms and other information distributed to students, parents, secondary and post-secondary guidance personnel and others who wish to either apply for, or have an understanding of, your programs.

The time and effort devoted to gathering and forwarding this information will be deeply appreciated. With your help we will formulate a new and creative financial assistance program for Kentucky's post-secondary students.

Sincerely,

Paul P. Borden
Executive Secretary

PPB:vj

APPENDIX D

I. STUDENT LOAN PROGRAM: PROPOSED LEGISLATION

The following example of legislation may be useful to KHEAA as it may decide to propose additional direct lending legislation.

An Act relating to education: authorizing and directing the Kentucky higher education assistance authority to establish and supervise a student loan program; providing for the issuance of revenue bonds; amending certain Kentucky Statutes.

Be it enacted by the General Assembly of the Commonwealth of Kentucky.

Section 1: The Kentucky higher education assistance authority is authorized and directed to establish and supervise a student loan program in accordance with the provision of K. R. S.

Section 2: The general assembly has found and hereby declares that the encouragement of the maximum educational development of the young men and women of Kentucky is in the best interest of the Commonwealth. The loan program would encourage students to continue their education and provide financial assistance for those who would not otherwise be able to do so. The state loan program provided for herein is designated to be compatible with the provisions of the Higher Education Act of 1965.

Section 3: "Eligible institution" means any public educational institution and any private educational institution, in any state which is approved by the U. S. commissioner of education in accordance with requirements set forth in the Higher Education Act of 1965, as amended.

Section 4: "Eligible student" means a student who is officially registered or accepted for enrollment at an eligible institution in Kentucky or a Kentucky resident who is officially registered as a student or accepted for enrollment at an eligible institution in another state.

Section 5: The authority shall be authorized to make or to guarantee loans in the amounts not to exceed the maximum amount provided in the higher education act of 1965 and any amendments thereof and the authority shall be authorized to establish procedures determining the loan amounts for which students are eligible.

Section 6: Monies made available to the authority which are not immediately needed for the purposes of preceding sections may be invested by the authority. Such monies shall be invested in bonds, certificates of indebtedness, and other fixed income securities, except preferred stocks, which are legal investments for the permanent school fund. Such monies may also be invested in such prime quality commercial paper as is eligible for investment in the state employees retirement fund. All interest and profits from such investments shall inure to the benefit of the authority.

Section 7: Eligibility of student borrowers: An applicant shall be eligible to apply for a loan under the provisions of previous sections if

the authority finds that he is an eligible student as defined by this act and is eligible for a loan under federal regulations governing the federally insured student loan program.

Section 8: The authority may loan and guarantee the loan of money, upon such terms and conditions as the authority may prescribe.

Section 9: No loan or guarantee of a loan shall be made in excess of the maximum provided by pertinent federal laws and regulations and the aggregate unpaid principal amount of loans to any individual student shall not exceed the maximum provided in pertinent federal laws and regulations.

Section 10: Revenue bonds; issuance; proceeds. The higher education assistance authority is hereby authorized to issue revenue bonds in an aggregate amount not to exceed $30,000,000 for the purpose of obtaining funds for loans made in accordance with the provisions of the law. Proceeds from the issuance of bonds may be held and invested by the authority pending disbursements in the form of loans.

Section 11: Negotiable notes; issurance; condition. The authority may from time to time issue negotiable notes for these purposes and may from time to time renew any notes by the issuance of new notes, whether the notes to be renewed have or have not matured. The authority may issue notes partly to renew notes or to discharge other obligations then outstanding and partly for any other purpose. The notes may be authorized, sold, executed and delivered in the same manner as bonds. Any resolution or resolutions authorizing notes of the authority or any issue thereof may contain any provisions which the authority is authorized to include in any resolution or resolutions authorizing revenue bonds of the authority or any issue thereof, and the authority subject only to any contractual rights of the holders of any of its notes or other obligations then outstanding.

Section 12: Negotiability; bond anticipation notes: payment; conditions.
Subdivision 1: The authority may from time to time issue revenue bonds for these purposes and all such revenue bonds, notes, bond anticipation notes or other obligations of the authority issued shall be and are hereby declared to be negotiable for all purposes notwithstanding their payment from a limited source and without regard to any other law or laws. In anticipation of the sale of such revenue bonds, the authority may issue negotiable bond anticipation notes and may renew the same from time to time, but the maximum maturity of any such note, included renewals thereof, shall not exceed five years from the date of issue of the original note. Such notes shall be paid from any revenues of the authority available therefor and not otherwise pledged, or from the proceeds of sale of the revenue bonds of the authority in anticipation of which they were issued. The notes shall be issued in the same manner as the revenue bonds. Such notes and the resolution or resolutions authorizing the same may contain any provisions, conditions or limitations which a bond resolution or the authority may contain.

Subdivision 2: The revenue bonds and notes of every issue shall be payable solely out of revenues of the authority subject only to any agreements with the holders of particular revenue bonds or notes pledging any particular revenues. Notwithstanding that revenue bonds and notes may be payable from a special fund, they shall be and be deemed to be, for all purposes, negotiable instruments, subject only to the provisions of the revenue bonds.

Subdivision 3: The revenue bonds may be issued as serial bonds or as term bonds, or the authority in its discretion, may issue bonds of both types. The revenue bonds shall be authorized by resolution of the members of the authority and shall bear such date or dates, mature at such time or times, not exceeding 50 years from their respective dates, bear interest at such rate or rates, payable at such time or times, be in denominations, be in such form, either coupon or registered, carry such registration privileges, be executed in such manner, be payable in lawful money of the United States of America at such place or places, and be subject to such terms of redemption, as such resolution or resolutions may provide. The revenue bonds or notes may be sold at public or private sale for such price or prices as the authority shall determine. Pending preparation of the definitive bonds, the authority may issue interim receipts or certificates which shall be exchanged for such definite bonds.

Subdivision 4: Any resolution or resolutions authorizing any revenue bonds or any issue of revenue bonds may contain provisions which shall be part of the contract with the holders of the revenue bonds to be authorized as to:

(a) The setting aside of reserves or sinking funds, and the regulations and disposition thereof;

(b) Limitation on the purpose to which the proceeds of sale or any issue of revenue bonds then or thereafter to be issued may be applied and pledging such proceeds to secure the payment of the revenue bonds or any issue of the revenue bonds;

(c) Limitations on the issuance of additional bonds, the terms upon which additional bonds may be issued and secured and the refunding of outstanding bonds;

(d) The procedure, if any, by which the terms of any contract with bondholders may be amended or abrogated, the amount of bonds the holders of which must consent thereto, and the manner in which such consent may be given;

(e) Defining the acts or omissions to act which shall constitute a default in the duties of the authority to holders of its obligations and providing the rights and remedies of such holders in the event of a default.

Subdivision 5: Neither the members of the authority nor any person executing the revenue bonds or notes shall be liable personally on the revenue bonds or notes or be subject to any personal liability or accountability by reason of the issuance thereof.

Subdivision 6: The authority shall have power out of any funds available therefor to purchase its bonds or notes. The authority may hold, pledge, cancel or resell such bonds, subject to and in accordance with agreements with bondholders.

Section 13: Security for bonds. In the discretion of the authority any revenue bonds issued under the provisions of law may be secured by a trust agreement by and between the authority and a corporate trustee or trustees, which may be any trust company or bank having the powers of a trust company within the state. Such trust agreement or the resolution providing for the issuance of such revenue bonds may pledge or assign the revenues to be received or proceeds of any contract or contracts pledged or any portion thereof. Such trust agreement or resolution providing for the issuance of such revenue bonds may contain such provisions for protecting and enforcing the rights and remedies of the bondholders as may be reasonable and proper and not in violation of laws, including particularly such provisions as have hereinabove been specifically authorized to be included in any resolution or resolutions of the authority authorizing revenue bonds thereof. Any bank or trust company incorporated under the laws of the state which may act as depository of the proceeds of bonds or of revenues or other moneys may furnish such indemnifying bonds or pledges such securites as may be required by the authority. Any such trust agreement may set forth the rights and remedies of the bondholders and of the trustee or trustees and may restrict the individual right of action by bondholders. In addition to the foregoing, any such trust agreement or resolution may contain such other provisions as the authority may deem reasonable and proper for the security of the bondholders.

Section 14: Refunding revenue bonds; proceeds; investments.

Subdivision 1: The authority is hereby authorized to provide for the issuance of revenue bonds of the authority for the purpose of refunding any revenue bonds of the authority then outstanding, including the payment of any redemption premium thereon and any interest accrued or to accrue to the earliest or any subsequent date of redemption, purchase or maturity of such revenue bonds.

Subdivision 2: The proceeds of any such revenue bonds issued for the purpose of refunding outstanding revenue bonds may, in the discretion of the authority be applied to the purchase or retirement at maturity or redemption of such outstanding revenue bonds either on their earliest or any subsequent redemption date or upon the purchase or at the maturity thereof and may, pending such application be placed in escrow to such purchase or retirement at maturity or redemption on such date as may be determined by the authority.

Subdivision 3: Any such escrowed proceeds, pending such use, may be invested and reinvested in direct obligations of the United States of America, or in certificates of deposit or time deposits secured by direct obligations of the United States of America, maturing at such time or times as shall be appropriate to assure the prompt payment, as to principal, interest and redemption premium, if any, of the outstanding revenue bonds to be so refunded. The interest, income and profits, if any, earned or realized on any such investment may also be applied to the payment of the outstanding revenue bonds to be so refunded. After the terms of the escrow have been fully satisfied and carried out, any balance of such proceeds and interest, income and profits, if any, earned or realized on the investments, thereof may be returned to the authority for use by it in any lawful manner.

Section 15: Bonds not Commonwealth obligations. Bonds issued under this authority do not, and shall state that they do not represent or constitute a debt or pledge of the faith and credit of the Commonwealth grant to the owners and holders thereof any right to have the Commonwealth levy any taxes or appropriate any funds for the payment of the principal thereof or interest thereon. Such bonds are payable and shall state that they are payable solely from the rentals, revenues, and other income, charges, and moneys as are pledged for their payment in accordance with the bond proceedings.

Section 16: Any holders of revenue bonds issued under these provisions or any of the coupons appertaining thereto, and the trustee or trustees under any trust agreement, except to the extent the rights herein given may be restricted by any resolution authorizing the issuance of, or any such trust agreement securing, such bonds, may, either at law or in equity, by suit, action, mandamus, or other proceedings, protect and enforce any and all rights under the laws of the state or granted hereunder or under such resolution or trust agreement,and may enforce and compel the performance of all duties required by this act or by such resolution or trust agreement to be performed by the authority or by any officer, employee or agent thereof,including the fixing, charging and collecting of the rates, rents, fees and charges herein authorized and required by the provisions of such resolution or trust agreement to be fixed, established and collected.

Section 17: Legal investments; authorized securities. Bonds issued by authority are hereby made securities in which all public officers and public bodies of the Commonwealth and its political subdivisions, all insurance companies, trust companies,banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them; it being the purpose of this section to authorize the investment in such bonds of all sinking, insurance, retirement, compensation, pension and trust funds, whether owned or controlled by private or public persons or officers; provided, however, that nothing contained in this section may be construed as relieving any person, firm, or corporation from any duty of exercising due care in selecting securities for purchase or investment; and provided further, that in no event shall assets of pension funds of public employees of the Commonwealth of Kentucky or any of its agencies, board or subdivisions, whether publicly or privately administered, be invested in bonds issued under the provisions. Such bonds are hereby constituted "authorized securities" within the meaning and for the purposes of K.R.S. Statutes. Such bonds are hereby made securities which may properly and legally be deposited with and received by any state or municipal officer or any agency or political subdivision of the Commonwealth for any purpose for which the deposit of bonds or obligations of the state now or may hereafter be authorized by law.

Section: 18 Public purpose; tax free status. The exercise of the powers granted will be in all respects for the benefit of the people of this Commonwealth for the increase of their commerce, welfare and prosperity, and for the improvement of their health and living conditions, and as providing loans by the Commonwealth or its agent will constitute the performance of an essential public function, and any bonds issued under the provisions of his act, their transfer and the income therefrom including any profit made on the sale thereof, shall at all times be free from taxation of every kind by the Commonwealth and by the municipalities and other political subdivisions in the Commonwealth.

Section 19: Administrator. The administrator shall be under the authority independent of other authority and notwithstanding K.R.S. Statutes.

Section 20: Appropriation. Such amounts as may be necessary from the appropriation made for the purposes of this act may be used by the authority for costs incurred in administering the provisions of this act. The balance of the appropriation not required for administrative costs shall constitute a reserve fund which may be invested by the authority. Any interest which accrues on such investment shall insure to the authority and shall be available for either administrative costs or additions to the reserve fund at the discretion of the authority. The reserve fund shall not cancel and shall be available to the authority for as long as the programs provided by the provisions of this act are in effect, and for the general purposes of the reserve fund in accordance with the provisions of this act.

II. OUTLINE OF MAJOR COMPONENTS OF STUDENT SCHOLARSHIP AND GRANT-IN-AID LEGISLATION

The following outline of major components of student scholarship and Grant-in-Aid Legislation may be useful as KHEAA should decide to propose additional financial aid legislation:

STUDENT SCHOLARSHIPS, PURPOSE
GRANT-IN-AID, PURPOSE

Sec. 1 DEFINITIONS:

- Authority
- Executive Secretary
- Eligible Institution
- Financial Need
- Qualified Applicant
- Student

Sec. 2 POWERS AND DUTIES OF AUTHORITY

Sec. 3 SCHOLARSHIPS AND GRANT-IN-AID

- Eligibility, scholarship
- Eligibility, grant-in-aid
- Allocation and amount
- Priorities
- Terms of awards
- Renewal of awards
- Notifications

Sec. 4 ACCOUNTING AND RECORDS

- Accounts
- Rules, payment and accounting
- Certification of state auditor

APPENDIX E

OPERATIONAL AND CASH FLOW ANALYSES FOR KHEAA DIRECT LENDING PROGRAM

These projections assume that the following conditions will be operative:

1. The face value of revenue bonds marketed during the first biennium will total $15,000,000.
2. The net cost of the revenue bonds, including interest, liability and discounts, if any, will average at 6% per annum.
3. The net yield to KHEAA of invested proceeds on the sale of bonds will be 6% per annum while awaiting disbursement to students.
4. The cycle of lending will be such as to approximate having lent the principal amount for eight months of the year.
5. The entire annual portion of $7,500,000 will be lent to approximately 7,000 individual students, and 50% will borrow the following year.
6. Staffing requirements and space requirements, plus the usual overhead costs and data processing, will fall at projected levels.
7. Average yield from DHEW on loans will be 8.75% per annum.

CASH FLOW-FIRST YEAR

	Income	Expense	Net
Proceeds from sale of bonds.	$ 15,000,000		
Interest Received	1,039,687		
Interest Paid		$ 900,000	$ 139,687
Processing Cost Contracted		92,400	47,287
Projected Sale of Bonds		45,000	2,287
KHEAA Admin. Costs		200,450	- 198,163
	$ 1,039,687	$1,237,850	- $ 198,163

CASH FLOW-SECOND YEAR

	Income	Expense	Net
Interest Received	$ 1,245,937		
Interest Paid		$ 900,000	$ 247,774
Processing Costs Contracted		128,100	19,674
Projected Cost sale of Bonds			19,674
KHEAA Admin. Costs		139,260	- 119,586
	$ 1,245,937	$ 1,167,360	- $ 119,586

BREAKDOWN OF KHEAA ADMINISTRATIVE COSTS

	First Year		Second Year
Salaries	½ Exec. Secretary	$ 10,000	
&	½ Exec. Secretary's Secy.	3,500	SAME
Fringe	Loan Officer	18,000	BUT
Benefits	Loan Officers Secy.	7,000	ASSUME
	½ Accountant	6,700	5%
	1-Para-Professional	10,000	INCREASE IN
	3-Loan Processor/ Typist	21,000	SALARIES & BENEFITS
		$ 76,200	$ 80,010
	Rent - 25.00 per Sq.Ft. @ 55 Sq.Ft.	$ 13,750	$ 13,750
	Equipment	25,000	Non-recurring Expense
	Printing & Postage & Misc. Supplies	3,000	3,000
	Travel-Out State	2,500	2,500
	Annual D.P. Costs	40,000	40,000
	Initial Processing Expense	40,000	Non-recurring Expense
		$200,450	$ 139,260

This two year projection of cash flow for the loan program indicates that the initial costs of operation will require substantial funding to cover early deficit years. The non-recurring expense items are concentrated in the initial year because equipment purchase and data processing costs require immediate encumbrance of funds. It is imperative that equipment to micro-film all relevant loan documents must be operative prior to accepting the first loan application. The lender contract will require that KHEAA retain the original documents of the application, promissory note and check. The rest may be micro-filmed. A program of this nature accumulates a large mass of paper rather quickly. Micro-film files are imperative for control. Cost consideration would dictate micro-filming if for no other reason than that the annual cost per square foot must be paid for space absorbed by banks of filing cabinets.

It is suggested that suitable fireproof storage facilities be located for storage of the required original documents and that micro-filmed copies of these originals be used in the working file. Default claims must be accompanied by the original documents listed above. Loss of said documents virtually insures against substantiation of due diligence, consequent rejection of claims for reimbursement and ultimate loss to the Commonwealth. Under these circumstances, it is an absolute requirement that access to the original documents be very tightly restricted to one responsible individual.

The costs displayed are mid-range projections with the exception of the costs of contracting the loan servicing. Contract Loan Servicing costs are the actual costs charged by the Student Loan Servicing Center of First

Computer Service-First National Bank of Minneapolis. This service, which is not inexpensive, is probably the most complete in the U. S. and does guarantee due diligence and lowers the cost requirements for staff and data processing service within the lending agency. At present they service the Chase-Manhatten F.I.S.L. portfolio and provide a fixed cost basis for estimating administrative expenses. If considered to be desirable, a portion of the initial appropriation may be used to create a data processing system to service the loan accounts utilizing the capacity of the Commonwealth's computer facility. As it will take up to one year to create and test such a system, and one additional year to run in parallel operations prior to conversion, contracting with some outside agency is indicated. While First National Bank of Minneapolis is mentioned it would be useful to secure bids from Wachovia Services of Winston-Salem N. C., First National Bank of Chicago (University Finance Corporation) and contact the Denver Industrial Bank of Denver, Colorado prior to making final a contract of any nature.

One note of caution must be interjected at this point. Most of these systems charge on the unit cost basis, i.e., a loan acquisition fee, a per note interim monthly charge and a per student monthly billing fee during the payout period. For purposes of illustration, First Computer Corporation charges as follows:

Loan Acquisition Fee	$3.00 per loan
Per Note Monthly Fee	.85 while in interim (not per student
Per Students & Billing Fee	1.46 per month per student while in payout

Therefore, it is advantagous to the lender to lend a relatively large amount per student in one transaction, and segmented payments require separate notes. Annual student loans for below $500 will tend to cost more to service than they will generate in interest income. Split note (subsidized and non-subsidized portion of a single loan) require separate notes and separate billings, all of which increase administrative costs. Thus it is suggested that:

1. If KHEAA is willing to lend on split note, the minimum loan be no less than $500 per year for any borrower.

2. If KHEAA is unwilling to lend on split notes, the minimum can be reduced to $300-$350 per year.

3. To provide a valuable service to students, that KHEAA offer to purchase F.I.S.L. paper from banks when borrowers from KHEAA have had previous F.I.S.L. loans and cannot obtain new loans from the same source. This provision must be limited to paper where due dilgence has been maintained and can be so certified. The student benefits by having F.I.S.L. indebtedness consolidated for payment purposes upon one amortization schedule. The KHEAA profits because the aggregated level of student indebtedness to KHEAA increases, without an increase to the borrower, thus reducing processing costs as a ratio of income.

Cash flow analyses are not projected beyond the second year of operations because of unidentified variables inherent in the system. During the third year, as repayments of loans commence, the number and amount of repayments will vary with the relative point in the student's educational program at the point of borrowing. At the end of the third year, interest income should provide a small surplus after having covered admninistrative costs and providing reimbursements of the initial deficits. This assumes that the state does not opt for parallel operation of the program. In this event, the samples would be smaller and probably will cover at the end of the growth year, dependent upon the costs of parallel operation.

It is further suggested that the legislation state that the initial appropriation should remain with the program so long as it remains operational, to provide the base for a sinking fund to retire the revenue bonds.

The rationale for a Kentucky Direct Lending Program can readily be seen by observing the historical data relating to loan values with the Federal Guaranteed Student Loan Program. Kentucky, not unlike the nation, has experienceda steadily decreasing amount of traffic on the part of private lenders in this program:

	Number of loans	Amount
July, 1971	1,313	$ 1,516,000
August	2,055	2,276,000
September	1,104	1,220,000
October	468	493,000
November	438	418,000
December	677	590,000
January, 1972	604	497,000
February	334	282,000
March	414	456,000
April	343	380,000
May	715	787,000
June	1,047	1,149,000
Total 1971-72	9,512	$10,064,000
July, 1972	300	349,000
August	1,142	1,236,000
September	1,516	1,729,000
October	1,002	1,177,000
November	519	600,000
December	572	582,000
January, 1973	574	610,000
February	736	776,000
March	453	457,000
April	302	362,000
May	462	545,000
June	670	806,000
Total 1972-73	8,248	$10,229,000
July-October, 1973	3,562	$ 4,729,067

Following is a two year simulation of cash flow projections (not actual projections) of the proposed lending program for KHEAA. The following five additional assumptions are added to the seven already stated in this Appendix E as follows:

SIMULATION OF CASH FLOW PROJECTIONS: PROPOSED KHEAA DIRECT LENDING PROGRAM

Additional Assumptions:

1. Interest is payable to bond holders encumbered @ 0.5% per month, payable quarterly.
2. Interest received from USOE on loans outstanding is paid to KHEAA @ 0.73% per month received quarterly.
3. Investment capital is kept in interest-bearing account without penalty for withdrawal.
4. There is a one-month period to receive insurance commitment from USOE.
5. General administrative expense does not include contract processing costs.

	CAPITAL			INCOME			EXPENSE			
	AVAILABLE CAPITAL	LOANS TO STUDENTS	INVESTED CAPITAL	INTEREST INCOME: INVESTMENTS AND USOE PAYMENTS	INCOME	TOTAL INCOME	EXPENSE	BOND INTEREST EXPENSE	GENERAL ADMINIS.	NOTES
July 1, 1975	$15,000,000	$ Ø	$15,000,000	$ 75,000	Ø	$ 75,000	$45,000	$ 75,000	$40,169	Equip. purchased
Aug. 1, 1975	$14,000,000	1,000,000	14,000,000	70,000	Ø	70,000	Ø	75,000	14,569	
Sept 1, 1975	12,000,000	3,000,000	12,000,000	60,000	Ø	60,000	Ø	75,000	14,569	
Oct. 1, 1975	10,000,000	5,000,000	10,000,000	115,700	Ø	115,700	Ø	75,000	14,569	
Nov. 1, 1975	9,500,000	5,500,000	9,500,000	47,500	Ø	47,500	Ø	75,000	14,569	
Dec. 1, 1975	9,300,000	5,700,000	9,300,000	46,500	Ø	46,500	Ø	75,000	14,569	
Jan. 1, 1976	9,000,000	6,000,000	9,000,000	45,000	Ø	45,000	Ø	75,000	14,569	
Feb. 1, 1976	8,500,000	6,500,000	8,500,000	108,060	Ø	108,060	Ø	75,000	14,569	
Mar. 1, 1976	8,300,000	6,700,000	8,300,000	41,500	Ø	41,500	Ø	75,000	14,569	
Apr. 1, 1976	8,000,000	7,000,000	8,000,000	40,000	Ø	40,000	Ø	75,000	14,569	
May 1, 1976	7,800,000	7,200,000	7,800,000	186,460	Ø	186,460	Ø	75,000	14,569	
June 1, 1976	7,400,000	7,400,000	7,400,000	38,000	Ø	38,000	Ø	75,000	14,569	
July 1, 1976	7,500,000	7,500,000	7,500,000	37,500	Ø	37,500	Ø	75,000	14,569	
Oct. 1, 1976	2,500,000	12,500,000	2,500,000	242,450	Ø	242,450	Ø	75,000	14,887	5% increase in
Feb.11, 1976	1,500,000	13,500,000	1,500,000	297,310	Ø	297,310	Ø	75,000	14,887	salaries/fringe
May 1, 1977	300,000	14,700,000	300,000	313,210	Ø	313,210	Ø	75,000	14,887	benefits
July 1, 1977	15,000,000	15,000,000	15,000,000	75,000	Ø	75,000	45,000	150,000	14,887	

APPENDIX F

STUDENT FINANCIAL NEEDS ANALYSIS SYSTEMS

Financial need, as most simply defined, is the monetary difference between the amount that the student and his family can be reasonably expected to contribute toward the costs of education and the total cost of attendance at the institution chosen by the student. Financial need is not poverty. It means that there exists a gap between the ability of the family to provide assistance and the necessary costs of the education. This gap is closed by the awarding of student financial aid.

Student financial aid programs use some form of needs analysis method to determine eligibility for various programs as well as to calculate the amount of the award. This is the prime difference between financial aid programs and entitlement programs such as G.I. Bill, Social Security Services Benefits, War Orphans assistance and merit or no-need scholarship.

Entitlement programs operate upon the philosophy that if one is a member of a group which has blanket eligibility for these funds, one may receive them as a matter of right. Veterans receive G.I. benefits without regard to family circumstances. The student whose father is deceased or retired is entitled to receive stipulated Social Security benefits no matter what the family circumstances would indicate. Paradoxically, the student whose father has retired under very comfortable circumstances may receive a larger Social Security due to his father's having paid into the F.I.C.A. at maximum amounts than the student whose father became suddenly deceased and only earned a very modest income at less than the maximum F.I.C.A. level, having left a widow and children virtually without resources.

Merit or no-need scholarships reward certain attributes without reference to the financial position of the family. Well known examples of this type of award are stipends to attract students who are in the top 5% of academic ability, music scholarships to attract superior talents on desired instruments and athletic scholarships. While many of the students who win these awards are very needy, financial need does not enter into the selection process.

Student financial aid programs require a needs analysis system to determine amount of need and, consequently, the size of the award as well as basic eligibility for various programs. The underlying philosophy of financial aid programs is that the primary responsibility for financing students' education fallsupon the family. Thus, where the family, through needs analysis techniques, demonstrates that its resources are not sufficient to provide the necessary funds, the financial aid program provides the necessary amount.

There is a surprisingly large number of needs analysis systems which vary from the crude to the very sophisticated. The Federal Government permits the use of four in awarding federal student aid funds:

1. The College Scholarship Service (CSS)
2. The American College Testing Program (ACT)
3. The Income Tax Method
4. The Alternate Income Method

The last two of these are relatively unsophisticated systems and are generally not centrally processed. No mention is made of the B.E.O.G. system because it is not a needs analysis system; it is a device for rationing funds to highly restricted or targeted group of students.

For all practical purposes, the choice of needs analysis systems for the

use by KHEAA, in the administration of financial aid programs for the Commonwealth, must be made between the College Scholarship Service and the American College Testing Program. Both of these systems provide a sophisticated needs analysis system which would adequately serve the needs of KHEAA. While both of these systems would perform the necessary task, they are different in philosophy, computational methodology and expectation curves from the net family income and assets. C.S.S. relies very heavily upon the expertise and judgment of the financial aid officer who manually reviews each Parents' Confidential Statement to ensure accuracy and to exercise his discretion in altering results of the needs analyses.

A.C.T. offers a highly automated system featuring faster turn around time, extensive internal edit routines to verify the accuracy of the information and much greater capability for production of machine readable input into an agency processing system. No value judgment is implied as to the worth of either program. It is the considered opinion of the study staff that the KHEAA would find A.C.T. more suitable in a program of the size that is projected. The capability of A.C.T. to provide direct inputs will be invaluable because the luxury of manual screening of each needs analysis document could posit an equally luxurious staff to accomplish the task within a reasonable time frame. This does not appear to meet the test of rationality as to the projected cost of administration desired by KHEAA.

One needs analysis system must be selected because the differences between the two systems virtually prohibit acceptance of both. There would be no hope of maintaining vertical or horizontal equity if both systems would be accepted. The expectation curves differ markedly not only because of

the different timing of the family maintenance cost tables. The C.S.S. family living cost allowance has been adjusted to reflect the changes in the Consumer Price Index as of February, 1973 and A.C.T. has adjusted their living cost allowance to reflect changes in the Consumer Price Index as of December, 1973.

The study staff feels that the American College Testing Program needs analysis system would be more suitable to the requirements of the KHEAA. This implies no denigration of the College Scholarship Service needs analysis system, but only speaks to the operational capabilities of each system.

APPENDIX G

COMPUTATIONAL MODEL SIMULATIONS

All of the following calculations assume a family of two parents and three children. The father, age 45, is a wage earner, and only one of the children is in post-secondary education. The costs displayed for types of institutions are arbitrary and are not those of any particular Kentucky institution, although they would be common to Kentucky. Educational costs, as defined, include tuition, fees, books, dormitory expenses, and personal expenses of $400 per year.

	FAMILY ONE	FAMILY TWO	FAMILY THREE
Income	$ 6,500	$ 12,000	$ 17,000
Net Worth	4,000	8,500	13,500
Parental Contribution	0	1,090	2,550
Student Resources	400	450	560
TOTAL RESOURCES	$ 400	$ 1,540	$ 3,050

	INSTITUTION A (Two-Year Public)	INSTITUTION A (Four-Year Public)	INSTITUTION C (Four-Year Private)
Tuition & Fees	$ 350	$ 450	$ 2,000
Room & Board	750	850	1,150
Books & Supplies	150	150	150
Personal Expenses	400	400	400
TOTAL COST OF EDUCATION	$ 1,650	$ 1,850	$ 3,700

Simulations: Effects of Computational Mechanisms on Awards

1. Freedom of Choice Model

Maximum Award: Need to $1,000 or tuition, if lesser.

	Family One ($6,500)			Family Two ($12,000)			Family Three ($17,000)		
Institution	A	B	C	A	B	C	A	B	C
Award	$350	$450	$1,000	$100	$300	$1,000	$ 0	$ 0	$650

.....

2. Modified Freedom of Choice/Modified Access Model

Maximum Award: One-half of need to a maximum of $1,000; Minimum Award: $100.

	Family One ($6,500)			Family Two ($12,000)			Family Three ($17,000)		
Institution	A	B	C	A	B	C	A	B	C
Award	$650	$725	$1,000	$ 0	$150	$925	$ 0	$ 0	$ 325

.....

3. Pure Access Model

Maximum Award: One-half of need to a maximum of $1,000. Use University of Louisville, $2,500 for maximum cost; Minimum Award: $100.

	Family One ($6,500)			Family Two ($12,000)			Family Three ($17,000)		
Institution	A	B	C	A	B	C	A	B	C
Award	$650	$725	$1,000	$ 0	$ 150	$ 475	$ 0	$ 0	$ 0

.....

Note: Parent contributions derived from 1973-74 CSS Tables - Cost figures extracted from CSS: Student Expenses at Post-Secondary Institutions, 1973-74 New York, 1973.